



F&C Asset Management plc

Annual Report and Financial Statements 2011

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Forward-looking statements

This Annual Report and Financial Statements may contain certain "forward-looking statements" with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks" and "anticipates", and words of similar meaning, are forward-looking.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in market indices, interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation and deflation; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which the Group operates.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in the Group's forward-looking statements. F&C undertakes no obligation to update the forward-looking statements contained in this Annual Report and Financial Statements. Nothing in this publication should be considered as a profit forecast.

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Definitions

"F&C, FCAM, Group or Company" F&C Asset Management plc and its subsidiaries
"FL", "FL Group" Friends Life and its subsidiaries
"F&CGH" F&C Group (Holdings) Limited and its subsidiaries
"F&C REIT" F&C REIT Asset Management LLP and its subsidiaries
"REIT" REIT Property Asset Management LLP and its subsidiaries
"Sherborne or the Sherborne Group" Sherborne Investors (Guernsey) GP, LLC (Sherborne GP), SIGA, LP (SIGA), Sherborne Investors (Guernsey) A Limited, Sherborne Investors Management (Guernsey) LLC and Sherborne Investors LP
"Thames River" or "TRC" Thames River Capital Group Limited and its subsidiary companies or limited liability partnerships (LLPs) which are consolidated within the Group
"NCI" Non-controlling interests

Our year in brief

Net revenue

£267.0m

Group underlying profit before tax

£47.0m

Underlying earnings per share

5.5p

Total dividend per share

3.0p

2011 Financial and Business Highlights

- First phase of the strategic review completed, second phase expected in May 2012
- £33.2 million cost reduction programme is ahead of plan and remains on track to be substantially achieved by the end of 2012
- Assets under management of £100.1 billion (2010: £105.8 billion)*
- £7.8 billion of gross new third-party business (2010: £5.7 billion)
- Three-year investment performance track record remains competitive, particularly in the Group's largest asset class of fixed income
- Consultant buy ratings at record levels
- Net debt reduced to £77.8 million (2010: £95.9 million)*
- Underlying earnings per share of 5.5 pence (2010: 5.7 pence)
- Unchanged total dividends of 3.0 pence per share (2010: 3.0 pence)

Reconciliations of reported to underlying earnings and calculations of key performance indicators are given on page 124.

Reconciliations between reported earnings/(loss) and underlying earnings and between basic loss per share and underlying earnings per share are given in note 10 to the Consolidated Financial Statements.

* As at the end of the reporting period.

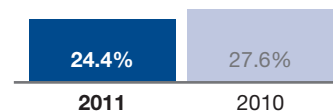
Assets under management*



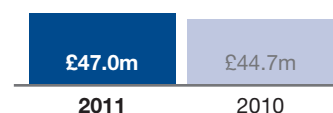
Net revenue



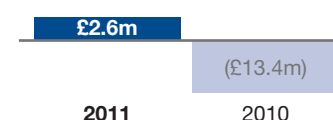
Underlying operating margin



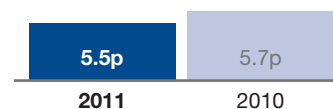
Group underlying profit before taxation



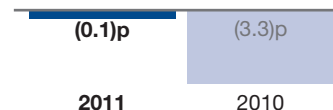
Reported profit/(loss) after tax



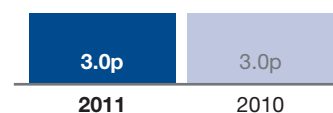
Underlying earnings per Ordinary Share



Basic loss per Ordinary Share



Total dividend per Ordinary Share



Welcome from the Chairman

2011 was a significant year for F&C with changes in the composition of the Board and important progress made in developing its strategy. A review of business flows, investment performance and operational developments, is provided in the Chief Executive's Report.

Five new Directors joined the Board, three as a result of the changes which arose from the Extraordinary General Meeting in February 2011, which was covered in last year's Annual Report, and the subsequent appointment of two additional Directors. In the second half of 2011, Keith Jones and Keith Percy were appointed as Independent Non-Executive Directors. Both Mr Jones and Mr Percy bring considerable industry expertise to the Board as former chief executive officers of major asset management firms. Additional information on the recently appointed and incumbent Directors is included on page 22.

The Board has been conducting a comprehensive review of strategy during the year. As I wrote in last year's report, F&C has a great many strengths, including a strong brand, competitive investment performance across a range of products and high quality professionals, but these have not been reflected in its financial performance in recent years. The goal of the review is therefore to enhance shareholder value.

In setting the parameters for the revised strategy the Board agreed three key objectives:

- Generate above-average shareholder returns with below-average volatility
- Achieve competitive scale in areas of strategic focus
- Create a stable environment for long-term growth

The first phase of this work completed in October and focused on addressing certain corporate issues, as well as the growth strategy for our institutional business. In particular, we announced steps to improve profitability through an additional £21.2 million expense reduction programme over and above the £12.0 million target set-out at the start of the year from the operational outsourcing project and related restructuring. These combined £33.2 million cost reductions, which will substantially be achieved by the end of this year and fully achieved during 2013, will enhance underlying earnings and the level of dividend

cover and provide the Group with the ability to accelerate the retirement of its long-term debt. Improving the Group's financial position will better enable F&C to implement its revenue growth plans, with consistent investment in the resources required to support growth.

Our revised institutional strategy is to focus on those areas where F&C has existing scale and marketable track records in products that meet the needs of insurance companies and pension schemes. Both of these large client groups are increasingly focused on immunising liabilities, with fixed income as the core asset class in their portfolios. F&C has significant scale in fixed income, good performance track records and has gathered strong consultant support for its expertise in Liability Driven Investment.

The second phase of the strategic review, which will cover the growth strategies for our retail, wholesale, investment trust and real-estate businesses, is ongoing. We expect to conclude this work in May.

Results and Dividend

The underlying profit after tax was £28.4 million compared to £28.8 million in 2010. This represents underlying earnings per share of 5.5 pence for 2011 (2010: 5.7 pence).

On a statutory reporting basis, which includes exceptional and non-cash items, the Group made a profit after tax of £2.6 million, compared to a loss after tax of £13.4 million in 2010. This represents a basic loss per share of 0.1 pence compared to a loss of 3.3 pence in 2010.

The Board is recommending an unchanged final dividend of 2.0 pence per share, payable on 25 May 2012 to shareholders on the register at 30 March 2012. This brings full-year dividends to 3.0 pence per share (2010: 3.0 pence per share).

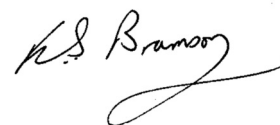
Retirement of Alain Grisy

In October 2011 the Group announced that Alain Grisy would be retiring in the latter part of 2012 and would therefore step down as Chief Executive and from the Board at the conclusion of the Annual General Meeting in May. As part of a gradual and orderly handover of responsibilities, I have temporarily taken on the position of Executive Chairman. This is an interim measure while the Group completes its strategic review and implements the related actions. The Board

expects that the roles of Chairman and Chief Executive will be separated again by the time of the 2013 Annual General Meeting.

As a result of the handover, and to ensure accountability for delivery of goals for each business line, we have clarified senior management responsibilities. Richard Wilson is now head of our Investment and Institutional Business and Charlie Porter is head of our Retail and Wholesale Business (which incorporates investment trusts). Responsibility for F&C REIT, our real-estate business, and F&C Portugal remains unchanged.

On behalf of the Board and management team, I would like to thank Alain Grisy for the huge contribution he has made to F&C over many years, the last six of which he has served as Chief Executive. His notable achievements include successfully leading F&C through a period of ownership uncertainty to an independent stock market listing and the acquisitions of Thames River and REIT Asset Management. Alain leaves F&C with our very best wishes for the future.



Edward Bramson
Executive Chairman

15 March 2012



2011 was a significant year for F&C with changes in the composition of the Board and important progress made in developing its strategy.

Chief Executive's Report

Market Overview

The ongoing European sovereign debt crisis continued to cast a cloud of uncertainty over the global economy during 2011 as solvency fears spread beyond Greece, Ireland and Portugal to the much larger economies of Spain and Italy. Alongside this the year also saw a number of significant geopolitical developments and natural disasters which contributed to extreme volatility in global markets and poor investor sentiment. These included the earthquake, tsunami and nuclear reactor crisis in Japan, violent upheaval in the Middle East and North Africa and growing concerns over Iran's nuclear programme.

While across the year the equity market ended only modestly down, with the FTSE 100 Index posting a total return of -2.2 per cent., volatility as measured by the VIX Index hit levels last seen at the height of the credit crisis in 2008 when the global financial system was on the brink of collapse. At its lowest point the FTSE 100 Index had declined by -13.8 per cent. from the start of the year and the S&P 500 Index of leading US companies traded in a 24 per cent. range with an average daily move of around 1 per cent.

Volatile markets, combined with poor liquidity, adversely affect the asset management industry by impacting both new business generation, particularly from retail investors, and the ability of fund managers to position client portfolios in order to deliver out-performance. During 2011 only 17 per cent. of funds in the IMA UK All Companies sector managed to outperform the FTSE All Share Index on a total return basis (source: Lipper).

Underlying asset performance was a £2.9 billion positive contributor to assets under management (AUM) over the year. However, the Group saw its AUM decline 5.4 per cent. to £100.1 billion (31 December 2010: £105.8 billion) principally as a result of net outflows and adverse foreign exchange movements associated with strategic partner assets.

Some 52 per cent. of the assets we manage are in Euro-denominated portfolios, with strategic partners making up 67 per cent. of this exposure.

Business Flows

While the business saw overall net outflows of £7.2 billion during the year, this was primarily attributable to strategic partner outflows. The outflows reflected the underlying maturity profile of some of our strategic partners' insurance books, the market conditions in Portugal and Ireland and specific developments including the partial nationalisation of the BCP Pension Scheme in Portugal and the sale of Imperio France by Achmea. We estimate annualised revenues lost from these net outflows in 2011 to be approximately £11.9 million.

Net flows from third-party clients were flat reflecting the difficult market environment, particularly for retail and wholesale business. Institutional gross sales were strong, with £4.6 billion new mandates funded and an additional £1.2 billion won but unfunded at year end. Institutional flows were indicative of our much improved position with investment consultants where our credentials in areas such as fixed income and Liability Driven Investments (LDI) have gained strong recognition.

Financial Results

While net revenues increased to £267.0 million (2010: £243.2 million), this reflected the first full-year of Thames River's inclusion in the Group which also had a corresponding impact on the expense base. Net revenues included performance-related management fees of £11.8 million (2010: £12.9 million). The reduction in performance fees over the previous year partially reflected weaker investment performance in the second half of the year at Thames River, where the majority of products have performance fee potential, and also the reduced performance fee potential from certain F&C mandates.

Underlying operating costs, excluding amortisation of intangible assets and exceptional items, were £202.1 million (2010: £177.0 million). These included a full-year impact from the Thames River acquisition, including £18.3 million in respect of distributions payable to Thames River members. Core operating expenses in the legacy F&C business were slightly lower year-on-year, with cost reductions more than offsetting inflationary increases.

The Group also incurred a number of exceptional and non-recurring costs which are excluded from our underlying results. These included costs associated with the F&C Partners litigation, costs of implementing our back and middle office outsourcing and one-off expenses related to our cost reduction programme. Offset against these, and also excluded from underlying results, are exceptional gains arising from the reassessment of conditional consideration payable for Thames River, and in respect of the reduction in F&C REIT put option liabilities. The Group anticipates that, based on current and forecast financial performance, no conditional consideration will be payable for the Thames River Group.

The Group achieved an underlying operating profit for 2011 of £65.2 million (2010: £67.2 million), resulting in an underlying operating margin of 24.4 per cent. (2010: 27.6 per cent.). In addition, the Group recognised investment gains, which are included in investment income, of £3.7 million during the year.

Underlying earnings per share for the year were 5.5 pence (2010: 5.7 pence).

On a statutory basis, which includes amortisation and exceptional items, the Group made a profit after tax of £2.6 million (2010: a loss of £13.4 million).

Statement of Financial Position

The Group closed the year with £196.9 million of shareholders' cash reserves and net debt reduced to £77.8 million (2010: £95.9 million). A significant proportion of the shareholders' cash reserves are held in our regulated subsidiaries against their capital requirements.

Gross debt of some £275 million (2010: £275 million) comprises £125 million of subordinated loan notes and £150 million of senior loan notes, neither of which include any financial covenants.

Business Review

While the Board conducted its review of strategy, the operational focus of the business during 2011 remained the delivery of good investment performance and client servicing during a period of market turbulence, and the project to outsource our back and middle office functions.

On an asset-weighted basis relative investment performance during the year was encouraging, particularly in fixed income, which is the core asset class for both defined benefit pension schemes and insurance portfolios. Importantly, three-year track records continue to be competitive: on an asset-weighted basis some 87 per cent. of fixed income, 64 per cent. of equities and 98 per cent. of property assets are above benchmarks over three years.

Our position with investment consultants continues to improve and we have a highly active programme of consultant engagement. We now have 70 individual product buy ratings compared to 43 at the end of 2010. This significant increase in consultant ratings primarily reflects new ratings for a number of investment solutions products launched over the last two years, including our equity-linked bond fund range and a suite of Dynamic LDI funds that we launched in December 2011. Our credentials in providing solutions to help insurers to

address their solvency requirements and pension schemes to immunise liabilities, gained important recognition with our appointment to the UK's Pension Protection Fund's panel of LDI providers. F&C also won the LDI Provider of the Year award at the prestigious 2011 European Pensions Awards.

As disclosed in our Interim Report, a further notable achievement during the year was our appointment by the National Employment Savings Trust (NEST) to manage their ethical fund option. NEST is a new workplace defined contribution pension scheme, into which UK employees who do not currently have access to an occupational pension scheme will gradually be auto-enrolled by 2017. This mandate provides long-term potential for business flows and further recognition of F&C's scale and leadership in sustainable investing. We see further opportunities for developing our presence in socially responsible investment arising from recent decisions by some other asset managers to scale back their resources and activities in this area.

The tough market environment for the retail/wholesale mutual fund business resulted in 2011 being a relatively subdued year for new product innovation across the industry. We closed a small number of funds and share classes which were sub-scale and where we saw little demand. In the UK, we continued to focus heavily on multi-manager products, including our Lifestyle risk-rated funds, where we are seeing support from Independent Financial Advisers (IFAs) seeking an outsourced core investment proposition for their clients. We have also been planning for the implementation of the recommendations of the Retail Distribution Review, which will replace the traditional commission-based IFA model with the explicit charging of fees for advice. The new regime will be fully implemented by the end of 2012 and therefore we are in the process of finalising our new fund pricing strategy.

F&C manages significant assets for a number of strategic partners: Achmea (The

Netherlands), Millennium BCP (Portugal), Friends First (Ireland) and Friends Life (UK). These assets principally comprise insurance funds but also include sub-advised mutual funds and certain pension scheme assets. These are long standing relationships which have generally provided us with exclusivity to manage the assets of these partners for a minimum period of time. An exception to this is the Millennium BCP relationship in Portugal, which is principally represented by a BCP-Ageas insurance joint venture, where that exclusivity period has already come to an end. We are in discussions with BCP-Ageas regarding the longer-term nature of our business relationship.

At 31 December 2011 AUM for strategic partners were £60.2 billion (2010: £67.0 billion) representing 60 per cent. of our total AUM. Due to the lower fees that we receive for managing these assets, our revenue from strategic partners is considerably less at some 30 per cent. of 2011 revenues.

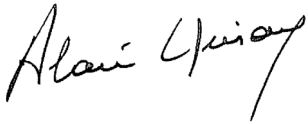
Friends Life has set out its intention to establish an in-house asset management function and, as previously disclosed, has served notice to withdraw £2.3 billion of assets at the end of this year. Our expectation is that all or most of the assets that we manage for Friends Life may be withdrawn at the expiration of the contractual exclusivity periods, which occur at various times up to October 2014. Our strategy, as set out in October 2011, anticipated this potential withdrawal and we intend to offset it through reductions of related costs and a focus on generating new business.

As disclosed in our Interim Report, the agreement to outsource certain back and middle office functions to State Street came into effect on 1 July with all impacted staff now transferred to State Street. The project has been managed successfully, with minimal disruption to client servicing. As we complete our move to State Street's strategic platform over the course of 2012, we expect to deliver the cost savings associated with this project.

Summary

While the macroeconomic outlook remains challenging and geopolitical instabilities persist, markets have begun to make headway in 2012 with the FTSE 100 Index rising 5.4 per cent. to the end of February. Encouragingly, our relative investment performance has also been strong in the first two months of 2012.

After six years as Chief Executive of F&C, this will be my last report as I will be retiring from the Board at the conclusion of the Annual General Meeting in May. It has been a privilege to serve as Chief Executive and in particular to guide F&C through a period which saw the two most significant market downturns in eighty years. I wish my colleagues on the Board and all of the staff at F&C every success for the future.



Alain Grisay

Chief Executive

15 March 2012

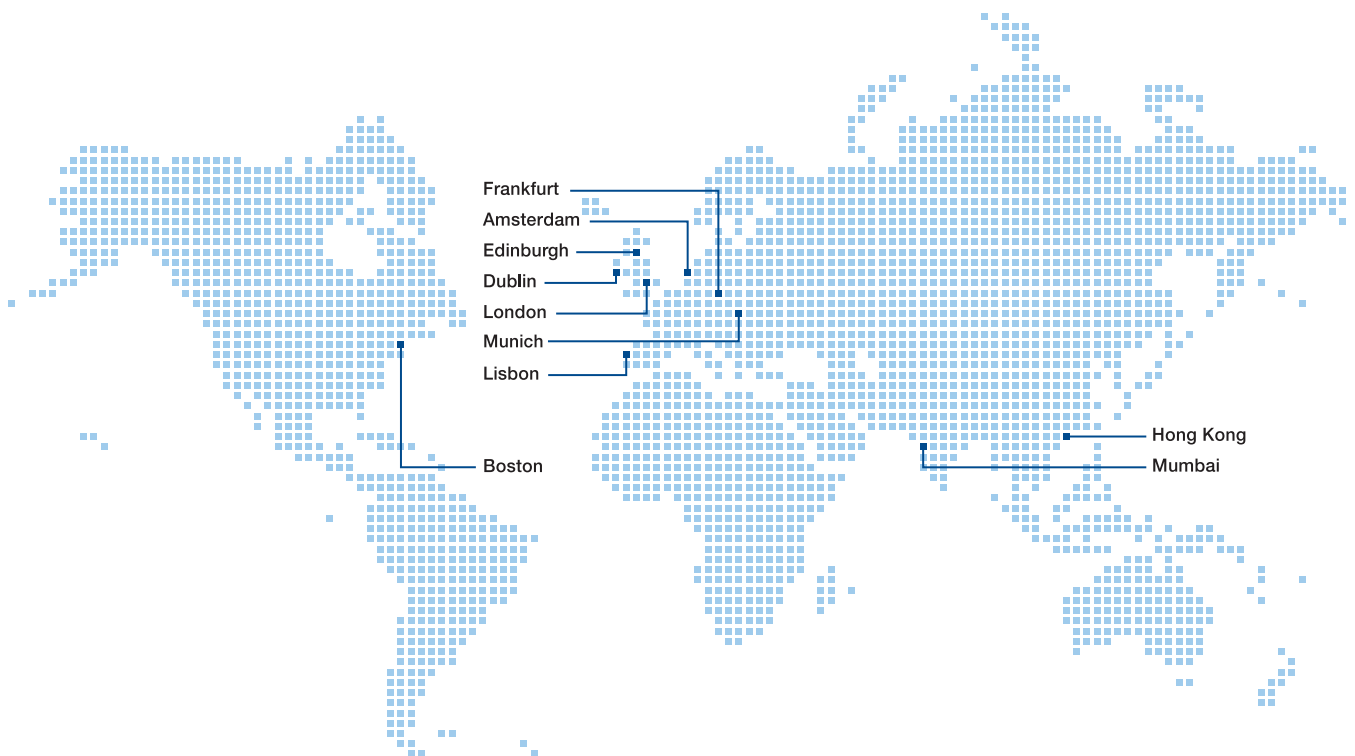


The ongoing European sovereign debt crisis continued to cast a cloud of uncertainty over the global economy during 2011 as solvency fears spread beyond Greece, Ireland and Portugal to the much larger economies of Spain and Italy.

This is F&C

F&C is a leading asset management company providing solutions that deliver superior performance and service.

With offices in 8 countries we are a global business with a strong presence in Europe. Our clients are insurance companies, institutional, retail and wholesale investors, representing over three million individuals – for whom we manage approximately £100 billion.



The Board has prepared this review on pages 2 to 21 in accordance with the requirements of Section 417 of the Companies Act 2006 and it forms part of the Directors' Report. The law requires the Company's auditor to report on whether the information given in the Directors' Report and Business Review is consistent with the Financial Statements. The auditor's opinion is included in the report on page 41.

The purpose of this review is to provide shareholders with a snapshot summary setting out the business objectives of the Company, the Board's strategy to achieve those objectives, the risks faced, the regulatory environment and the key performance indicators (KPIs) used to measure performance.

What we do

F&C's sole activity is asset management. We are an active international investor with a client focus on the UK and Continental Europe.

We operate across multiple locations, with a physical presence in eight countries. Our organisational philosophy has two key parameters – to seek to avoid duplication by, for example, managing each asset class from only one location, and to place client service functions where appropriate in order to meet client requirements.

Our values

- **Client focus**
- **Accountable performance**
- **Commercial innovation**
- **Mutual respect**

Our objective is simple: to create value by delivering first quartile performance in everything our clients expect from us.

Our clients

Our clients comprise a wide range of insurance companies, institutional, wholesale and retail investors, across multiple geographies and jurisdictions, for whom we manage a diverse spread of investments including fixed income, equities, property and alternative asset classes.

degree of autonomy over their investment process. We do this in order to foster a strong culture of enterprise and accountability for delivering performance. This approach – of being both large in terms of resource, but entrepreneurial in structure – is what we describe as a ‘multi-specialist’ fund management model.

How we manage money

With over 250 investment professionals, F&C has one of the largest investment teams in Europe. Our scale gives us a competitive edge in research resources and access to the most senior management at companies. We believe individuals work best as part of small, focused teams. Our investment professionals are therefore organised into dedicated teams, focused on specific products or market segments. We provide them with a high

Responsible investments

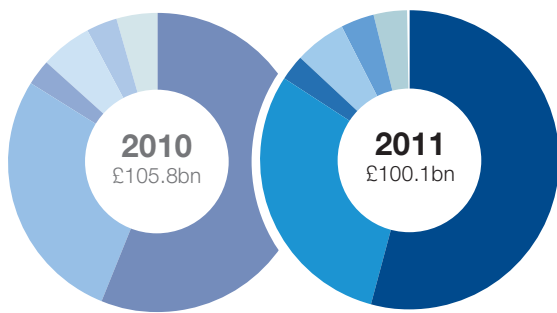
We seek to deliver strong investment performance through active management. However, as a shareholder representative, we seek to engage with the companies in which we invest, aiming to enhance and protect long-term shareholder value. Our approach is to have constructive dialogue with companies. We cast votes on shareholder resolutions globally, and disclose this to our clients on our website.

Key risks (see page 13)

In addition to the “normal risks” facing the business relating to the market, interest rates and foreign currency, the Board has identified the following as the key risks facing the business:

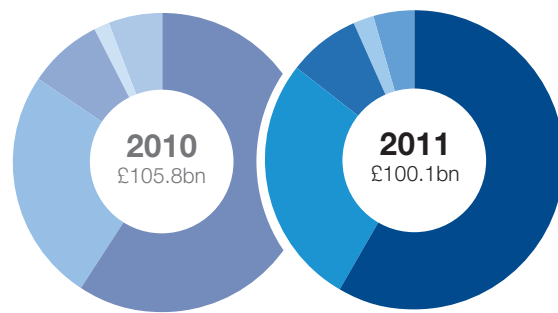
- Investment management
- Effective strategy formulation and execution
- Loss of strategic partners
- Outsourced activities
- Euro currency
- Loss of key employees
- Regulatory compliance

Assets Under Management by Client Category
as at 31 December



	2010	2011
	£bn	£bn
1 Insurance Funds	59.5	54.4
2 Institutional Funds	29.3	30.1
3 Sub-Advisory	3.0	2.7
4 Investment Trusts	5.9	5.6
5 Open Ended Funds (UK Onshore)	3.5	3.5
6 Open Ended Funds (Offshore)	4.6	3.8

Assets Under Management by Asset Class
as at 31 December



	2010	2011
	£bn	£bn
1 Fixed Interest	62.0	59.2
2 Equities	28.7	25.5
3 Property	8.2	7.9
4 Other Alternative Investments	2.4	1.7
5 Money Market	4.5	5.8

2011 Key Awards



UCITS HEDGE A HEDGE FUND JOURNAL PUBLICATION



F&C Global Convertible Bond



F&C Global Convertible Bond

Executive management



Edward Bramson
Executive Chairman



Alain Grisay
Chief Executive



David Logan
Chief Financial Officer



Jeremy Charles
Group Operations
Director



Charlie Porter
Head of Retail, Wholesale
& Investment Trusts



Richard Wilson
Head of Investment &
Institutional Business

Executive Directors and Group Management

Messrs Bramson, Grisay and Logan are the Executive Directors of the Company.

Alain Grisay and David Logan, together with Jeremy Charles, Charlie Porter and Richard Wilson formed the Group Management team (Group Management) in 2011. Group Management is accountable and responsible for implementing Board strategy, proposing development of new elements of strategy and for the day-to-day running of the business. In addition to overseeing the implementation of the strategy, Group Management regularly reviews business issues and matters not reserved for the Board as a whole. Group Management has reserved lists to assist it in carrying out its functions.

Examples of matters reserved for Group Management as delegated authorities from the Board:

- The approval of day-to-day business issues linked to the strategy or the annual budget and including the launch of new products.
- The approval of contractual commitments.
- The approval of expenditure and the management of any issue that could have a potential legal or reputational impact on the Group.



**F&C Global
Convertible
Bond Hedged**



**F&C Global
Climate
Opportunities**



**F&C US
Smaller
Companies**



Our strategy

During the year the Board launched a comprehensive review of strategy. In October 2011, the results of the first phase of this review, covering the Group's corporate functions and institutional business, were announced. The review of strategy for the retail, wholesale, investment trust and property businesses is expected to be announced in May 2012. Strategic objectives announced in the first phase of the review include:

- Generating above-average shareholder returns with below-average volatility;
- Achieving competitive scale in areas of strategic focus; and
- Creating a stable environment for long-term growth.

In supporting these strategic objectives, the Group has identified the following priorities:

Resolving corporate uncertainty

The Board determined that concerns regarding the potential impact of a significant loss of strategic partner assets, together with F&C's level of expenses and borrowings, were creating uncertainty over the future outlook for the Group. Accordingly, the Board has:

- Provided a profile of strategic partner contract terms and profitability;
- Set out a cost reduction programme to preserve Group profitability in the event that strategic partner assets are withdrawn at the end of their exclusivity periods; and
- Clarified that its objective is both to maximise the retention of strategic partners' mandates beyond current exclusivity periods and to seek to add new insurance mandates.

Our 2012 priorities are to:

- Execute our cost reduction programme;
- Grow third-party institutional business;
- Develop new product areas for a re-risking scenario;
- Maximise the retention of strategic partner assets; and
- Utilise free cash flow, after dividends, to reduce gross and net debt.

Improving financial results

The Board believes that the Group's ability to execute its growth plans will be enhanced with improved profitability and a stronger balance sheet. Specific objectives include:

- Improving dividend cover, to provide shareholders with greater certainty of future payments;
- Providing for consistent investment in new products and distribution over time; and
- Creating the opportunity for improved employee compensation.

Our 2012 priorities are to:

- Deliver improved underlying earnings per share;

- Invest in core institutional products, which meet the Board's financial criteria. These criteria include scalability, high operating leverage and low revenue volatility;
- Focus institutional product development on areas with growing potential demand and which meet long-term client needs; and
- Integrate our investment and sales teams, through an enhanced marketing function, to improve product development.

Enhance employee motivation

The Board believe that employee motivation can be improved by providing a clear linkage of compensation to individual performance and Group objectives.

Our 2012 priorities are to:

- Revise the Group's objective-setting and performance appraisal process to set and monitor measurable individual objectives for key employees; and
- Deliver a remuneration structure that rewards employees for meeting individual objectives, whilst linking that reward to corporate earnings.

Improving marketing and product development

The strategic review identified a number of changes which could be made to the Group's marketing and product development functions to deliver improved institutional flows. These include:

- Investment in the sales and marketing functions;
- Aligning product development with evolving customer needs;
- Integrating the Group's investment process with its distribution approach; and
- Clarifying the Group's approach to each distribution channel.

Our 2012 priorities are to:

- Create a formal marketing strategy for the insurance sector and expand our dedicated sales resource;
- Better communicate the Group's overall positioning in the institutional market; and
- Selectively incubate new products in the wholesale channel for potential transfer to the institutional channel when sufficient track records and scale are achieved.

Whilst the change in priorities arising from the strategic review result in our 2012 goals differing significantly from our 2011 priorities, we have set out below our performance against our original 2011 goals and objectives.

Client service

2011 key points

- Completed the outsourcing of key operational functions without disrupting client service
- Transferred responsibility for investment trust client service and business development to our funds business
- Held a series of successful educational seminars for pension schemes trustees and a major investment conference for discretionary wealth managers

Key performance indicators

Corporate Health – The Board considers a report on the Group's Operations and IT systems, Human Resources, Audit and Risk and Compliance functions at each Board Meeting.

Investment performance

2011 key points

- 87 per cent. of fixed income assets were ahead of agreed index benchmarks or targets over three years as at year end
- 64 per cent. of equity assets were ahead of agreed index benchmarks or targets over three years as at the year end
- 98 per cent. of IPD monitored portfolios ahead of benchmark over three years as at the year end

Key performance indicators

Average percentage of Fixed Income assets above index benchmark or peer group on an asset weighted basis
% (3 years)



Average percentage of Equity assets above index benchmark or peer group on an asset weighted basis
% (3 years)



Average percentage of Property assets above index benchmark or peer group on an asset weighted basis
% (3 years)



Grow new revenues and further diversify the client base

2011 key points

- Good progress with institutional investment consultants, with 70 product buy ratings achieved by the end of the year
- Generated £7.8 billion of new third-party business (ex. strategic partner flows), with a further pipeline of £1.2 billion in institutional mandates awaiting funding
- 20 new institutional clients added during the year

Key performance indicators

Gross institutional new business

£bn



Net (outflows)/inflows in third-party mutual funds

£m



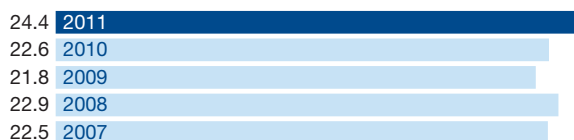
Focus on higher margin and specialist areas for new business

2011 key points

- Average basis points (excluding performance fees) increased from 22.6 in 2010 to 24.4 in 2011
- Key institutional products include emerging market debt, equity-linked bond funds, liability driven investments and real-estate
- In the UK retail market key focus remains multi-manager and the 'Lifestyle' funds
- In the wholesale segments key products included global bonds and global convertibles

Key performance indicators

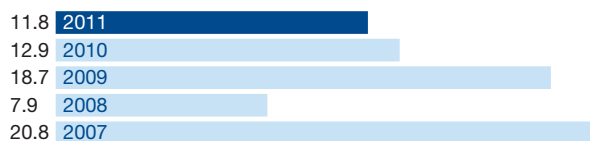
Average basis points earned on assets under management*



*excluding performance fees

Performance fees earned

£m



Create greater flexibility in our cost base

2011 key points

- Underlying operating costs reduced by £1.7 million
- Signed an agreement to outsource certain back and middle office functions to State Street to create an operational cost base that will adjust with assets under management and transaction levels. Annualised cost savings of this and related actions expected to be £12 million once fully implemented
- Launched a further cost reduction programme to deliver an additional £21m of annualised cost savings with full run-rate expected in 2013

Key performance indicators

Operating margin

%



Improve capital strength

2011 key points

- Net debt reduced by £18.1 million
- Set out plans to reduce debt through the period to the expiry of the exclusivity periods on strategic partner contracts
- Debt reduction plans will enable the Group to substantially reduce its net interest expense

Key performance indicators

Net debt

£m



Managing risk

The Directors are committed to a strong control environment throughout the Group. F&C has a culture that emphasises the importance of rigorous disciplines and procedures to safeguard the interests of our clients and other key stakeholders.

Investment management

Key Risk The success of the Group depends upon the effective management of client portfolios against targets, benchmarks and/or peer groups. Failure to do so could lead to client outflows and the loss of key mandates, may prevent the Group from winning new business and could potentially expose the Group to greater risk of mandate or regulatory breach.

Mitigation Fund Managers are responsible for interpreting and effectively managing the risks associated with investment ideas/strategies. Independent of Fund Managers, the Group operates an Investment Risk Oversight team with responsibility for monitoring and challenging risks within client portfolios.

Effective strategy formulation and execution

Key Risk The success of the Group depends upon the effective formulation, articulation and execution of its strategy. During the year there were changes in key elements of strategy formulation and execution.

Mitigation Following the appointment of a new Chairman in February 2011 the strategic review of the Group's corporate position and its Institutional Business was announced in October 2011, highlighting the objective of achieving competitive scale in areas of strategic focus through consistent investment in products, channels and human resources. This will increase institutional focus on the Group's fixed income offerings. The strategic review of the Retail and Wholesale Business is expected to be announced in May 2012.

Loss of strategic partners

Key Risk The success of the Group depends on the relationships it has with its clients. The retention of clients and the winning of new mandates may be driven by historical performance and the quality of client service. A number of contracts with our key strategic partners are approaching expiry of exclusivity.

Mitigation Dedicated relationship management teams ensure continued quality of service. Investment performance is closely monitored by Investment Function management. Furthermore, the strategic review explicitly addressed uncertainties relating to strategic partners. Combined with an increasing reliance on outsourced providers, additional cost cutting measures were announced that will deliver cost flexibility and ensure that the Group should remain financially viable under a scenario where strategic partners assets are withdrawn.

Outsourced activities

Key Risk In pursuing a strategy with a focus on competitive scale, the use of outsourced service providers benefits the Group by providing cost effective access to an industry competitive operating platform. In support of this strategic objective, the Group has

increased its concentration and reliance on third parties through the execution of a service agreement with State Street Corporation.

Mitigation The selection of a key supplier to the Group was undertaken following a robust due diligence and selection process. As part of the implementation of these outsourcing arrangements the Group has established a dedicated team to oversee all aspects of service delivery. The implementation project is being managed by a Steering Group comprised of senior business managers.

Euro currency

Key Risk In addition to the potential operational implications arising from the collapse of the Euro or withdrawal of individual countries, the Group has exposure to a large number of clients whose assets under management have the potential to be impacted. In Q4 2011 strategic partner assets were withdrawn as a result of the decision by the Portuguese government to nationalise past pension obligations of the country's largest banks.

Mitigation The Group's operating platform is positioned to cope with potential changes to Eurozone membership arising from the Euro crisis and the Group proactively considers a range of potential scenarios with key service providers. The Group also provides tailored assistance to its clients in considering scenario implications for their own planning.

Loss of key employees

Key Risk The success of the Group depends on the support of its employees. The departure of key employees could lead to client outflows and the loss of key mandates, may prevent the Group from winning new business and could potentially expose the Group to greater risk of regulatory, financial or operational failure.

Mitigation The Group benchmarks total compensation to market data. All employees receive an annual appraisal which reviews their performance against clearly defined objectives with the aim of encouraging strong performance. Reliance on key individuals is mitigated by the Group's team-based approach to investment management. Moreover, we seek to reduce our dependence on key staff through ongoing learning and development initiatives, and the recruitment of suitably skilled individuals.

Regulatory compliance

Key Risk Significant changes in regulatory frameworks and the increased trend in regulatory scrutiny across the financial services industry present both opportunities and challenges for the Group.

Mitigation The Group Compliance team ensures that key regulatory changes are identified at the earliest opportunity. Their impact is then assessed to allow practical guidance on the proper application and interpretation of any changes to be provided to all relevant business areas.

Our view of the market

The spectre of the ongoing European sovereign debt crisis continues to cast a long shadow of uncertainty over the global economy. De-leveraging remains the dominant global theme as governments persist with implementing austerity programmes against a backdrop of anaemic economic growth. With interest rates in the US, UK and Eurozone already at historically low levels and debt reduction targets curtailing the scope for tax cuts, the policy options for stimulating growth are limited, so we expect any recovery to take place over a protracted period. This backdrop, combined with upheaval in the Middle East and mounting concern over Iran's nuclear ambitions, presents the asset management industry with near-term headwinds in the form of volatile markets and fragile investor sentiment.

However, despite these current challenges, in our view the long-term prospects for the asset management industry remain attractive. We see considerable opportunities both from structural reform in developed market pension systems and from the growth of the emerging economies where the rapid spread of wealth is creating new pools of assets for the industry to manage.

In the developed world, governments are under pressure to pull back from increasingly unaffordable universal welfare provision as mortality rates have improved. In the UK the number of retired people will rise by more than a third by 2050, while the working population is expected to decline. Governments are therefore encouraging individuals, and companies on behalf of their employees, to take increased responsibility for their long-term financial well-being. For example, commencing this year it has become a legal duty for UK employers to provide workers with access to a qualifying pension scheme with gradual phasing in of auto-enrolment which will extend to all employers by September 2016. Alongside this the UK government has established the National Employment Savings Trust (NEST). NEST will provide an occupational defined contribution pension scheme for those employees who do not currently have access to one, typically those working at smaller firms.

The asset management industry is itself going through a period of structural upheaval driven by new regulation, changing client needs and developments in the distribution landscape.

In the institutional market, the long-standing trend of Defined Benefit (DB) pension scheme closures has continued with Royal Dutch Shell, believed to be one of the last companies in the FTSE 100 currently operating a final salary scheme open to new members, recently announcing that it too will close its final salary scheme to new members next year. We therefore expect to see rapid growth in the Defined Contribution (DC) pensions market, as companies shift risk away from their balance sheets and on to the shoulders of individual employees. As the DC pensions market grows, this will increasingly blur the boundaries of institutional and retail asset management, as scheme members are presented with pooled fund choices in much the same way as they would select from a range of mutual funds for an investment portfolio outside of a pension wrapper.

Notwithstanding the closure of DB pension schemes to new members, these will remain very significant pools of capital for many years to come. Within these schemes, the emphasis has moved increasingly towards de-risking and the immunisation of future liabilities. Fixed income has become the core asset class for these schemes, with a steady decline over many years in their exposure to equities. In this respect we see a growing convergence between the needs of DB pension schemes and insurance companies where changing solvency requirements are resulting in greater use of asset and liability matching strategies. We expect to see continued, and

growing, demand for both corporate credit and emerging market debt from pension schemes and insurers, as logical steps along the risk/return spectrum from developed market sovereign bonds and as these governments seek to reduce their debts. Within institutional equity allocations, mandates are increasingly global in nature, focused either on developed or emerging markets. There is reduced institutional demand for long-only actively managed regional equity strategies although these do remain core products for retail investors and discretionary wealth managers.

As the needs of pension schemes have changed, new models have emerged from both asset managers and investment consultants to support them in the form of fiduciary management (an asset-manager led proposition) and implemented consulting (a consultant-led proposition). These services broadly seek to integrate advice on asset allocation, risk budgeting and manager selection. Unlike traditional balanced pension management, these new providers of multi-asset services are prepared to make greater use of both passive strategies and alternative asset classes. We anticipate that these services, which are well established in the Netherlands and of growing importance in the UK, will expand into further pension markets.

The retail and wholesale market is also undergoing significant change, due to the growth of platforms and regulatory reform impacting the distribution landscape. In the UK a key driver of change is the Retail Distribution Review (RDR) which will be implemented by the end of 2012. These reforms seek to improve the advice received by consumers in the UK Independent Financial Adviser (IFA) market through the replacement of commission-based business models with the explicit pricing of advice through fees charged to the end-investor and new professional qualification standards. RDR is prompting many IFA firms to fundamentally change how they do business, with one outcome being an increased propensity to outsource the management of client investment portfolios through either the use of multi-manager funds or by partnering with discretionary wealth managers. The growth of these 'gate keepers' is leading to a greater institutionalisation of fund buying processes and accelerating the blurring of institutional and retail asset management referred to above. For management groups offering core multi-asset and multi-manager products to the intermediary market, the shift towards greater use of "outsourced" investment management solutions by IFAs should provide more stable fund flows and longer term holding patterns. However, in other single strategy product areas where the principal clients are increasingly multi-managers and discretionary wealth managers rather than IFAs, we expect to see a reduction in the average holding periods as these investors are more inclined to shift in and out of products depending on changing views on asset allocation or underlying managers. Asset managers are currently reviewing their fund pricing strategies and product ranges in preparation for this new distribution landscape.

Finally, the financial crisis that began in earnest in 2008 has raised important questions about the extent to which institutional investors have adequately held companies, and banks in particular, to account in areas such as remuneration, risk management and effective Board oversight. Across the asset management industry there is a much greater focus on corporate governance issues, as exemplified by the Stewardship Code, a set of principles released in 2010 by the UK's Financial Reporting Council. We see a similar trend towards higher expectations of shareholder engagement and improved transparency over voting activities across a number of developed markets and therefore we believe that the strength of expertise asset managers can demonstrate in this field will become an increasingly important factor in overall competitive positioning.

Our trading performance and outlook

Institutional: Third-Party and Strategic Partner business

F&C is a leading provider of services to institutional investors, which we broadly categorise as either third-party institutional business or “strategic partners” for whom we principally manage insurance assets. We provide these clients with both portfolio management in multi-asset and single asset class mandates and, increasingly, investment solutions such as liability hedging strategies and shareholder engagement programmes.

Our largest markets for third-party institutional business are The Netherlands, the UK and Germany. Institutional assets under management, excluding strategic partner assets, were £27.1 billion at 31 December 2011 (2010: £24.7 billion) representing 27 per cent. of our total assets under management and some 27 per cent. of 2011 net revenues.

Mandates in the institutional asset management industry are predominantly intermediated through firms of investment consultants who advise pension schemes on manager selection and asset allocation. In recent years F&C has achieved a much improved position with investment consultants, with a total of 70 individual product buy ratings at the end of 2011, compared to 28 four years ago. Consultant support and competitive performance resulted in a 28 per cent. increase in gross sales to £4.6 billion during 2011 (2010: £3.6 billion). After allowing for outflows, this resulted in net inflows of some £0.3 billion. Additionally, at 31 December 2011 the business had won a further £1.2 billion, pipeline of institutional new business that had yet to be funded. In line with the strategy announced in October 2011, we believe this business is well positioned for growth as we have strong track records, significant scale and consultant support in a number of core capabilities which are seeing strong demand from pension schemes and insurers. These include fixed income and solutions to help immunise liabilities.

F&C manages significant assets for a number of strategic partners: Achmea (The Netherlands), Millennium BCP (Portugal), Friends First (Ireland) and Friends Life (UK). These assets principally comprise insurance funds but also include sub-advised mutual funds and certain pensions scheme assets. These are long standing relationships which have generally provided us with exclusivity to manage the assets of these partners for a minimum period of time. An exception to this is the Millennium BCP relationship in Portugal, which is principally represented by a BCP-Ageas insurance joint venture, where that exclusivity period has already come to an end. We are in discussions with BCP-Ageas regarding the longer-term nature of our business relationship. At 31 December 2011 assets under management for strategic partners were £60.2 billion (2010: £67.0 billion) representing 60 per cent. of our total assets under management. Due to the lower fees that we receive for managing these assets, our revenue from strategic partners is considerably less at some 30 per cent. of 2011 net revenues.

Partially due to the maturity profile of some of the underlying insurance products of our strategic partners, there has been a longstanding trend of annual net outflows. In 2011 net outflows from strategic partners were £7.2 billion (2010 : £1.5 billion). 2011 strategic partner outflows were exacerbated by the partial nationalisation of the BCP Pension scheme by the Portuguese government and the sale of a French subsidiary by Achmea. We have been notified of additional outflows totalling £3.3 billion

which will occur during 2012, from the BCP Pension Scheme and Friends Life.

Friends Life has set out its intention to establish an in-house asset management function and, as previously disclosed, has served notice to withdraw £2.3 billion of assets at the end of this year. Our expectation is that all or most of the assets that we manage for Friends Life may be withdrawn at the expiration of the contractual exclusivity periods, which occur at various times up to October 2014. Our strategy, as set out in October 2011, anticipated this potential withdrawal and we intend to offset it through reductions of related costs and a focus on generating new business.

Retail and Wholesale: Funds and Investment Trusts

The F&C Group offers a wide range of investment vehicles which are distributed into the retail and wholesale markets, principally through Independent Financial Advisers, discretionary wealth managers and other wholesale channels such as banks and platforms. These products comprise closed-end listed investment companies/investment trusts and both UK and offshore domiciled open ended mutual funds. Some of these vehicles are managed by F&C staff and others by teams operating through the Thames River LLPs. It is important to distinguish between these as the allocation of revenues and profits differ significantly. Where a fund is managed by a Thames River team, the revenues earned from that fund, net of the direct costs of managing the fund, and certain allocated costs, are shared between the senior investment professionals in the investment team and the Group under a predetermined profit share formula. This typically results in the senior investment professionals receiving around 50 per cent. of the relevant profits. Where a fund is managed by F&C staff, the relevant investment managers are generally remunerated by a combination of salary plus a discretionary bonus.

During 2011, the total assets managed in fund products and investment trusts declined by £1.3 billion to £12.8 billion at 31 December 2011. £1.0 billion of that reduction arose from market movements, exchange rates and investment performance. Whilst gross inflows for funds and investment trusts were some £3.2 billion, and demonstrate our ability to successfully raise new assets, gross outflows were some £3.5 billion, resulting in a net outflow of £0.3 billion. Within these flows, products managed by Thames River saw £0.4 billion net outflows partially due to generally weaker performance in their funds during the second half of the year and also due to asset allocation changes from their more wholesale focused client base.

Our financial performance

Total return

We view share price total return (including dividends) as a key performance measure. Our total shareholder return for the year ended 31 December 2011 was -18.6 per cent. In the same period, the total shareholder return on the FTSE 250 Index was -10.1 per cent. and the FTSE 100 Index was -2.2 per cent.

Strategic background

2011 comprised two very distinct periods for equity markets – in the first half of the year markets were relatively benign, with the FTSE 100 Index opening the year at 5,900 points and standing at 5,946 points at 30 June. However, the second half of 2011 saw extreme levels of volatility as concerns regarding the stability and continuation of the Eurozone, together with other macroeconomic and geopolitical factors, led to a deterioration in market sentiment. As a consequence, the FTSE 100 fell some 20 per cent. to 4,791 points before recovering to close the year at 5,572 points. One of the consequences of this volatility was a significant de-risking by wholesale asset allocators; a trend from which we were not immune.

Presentation of financial results

International Financial Reporting Standards (IFRS) require our Financial Statements to consolidate the results of our Managed Pension Funds (MPF) business on a line-by-line basis, impacting the presentation of both our Income Statement and Statement of Financial Position. Our MPF business provides certain clients with asset management services inside an insurance product wrapper. The requirement to consolidate this business has a significant effect on the financial investments and investment contract liabilities captions included in our Statement of Financial Position, the risks and rewards of which are substantially borne by the clients of this business. In addition, our Statement of Financial Position includes some £28m of cash also attributable to policyholders of this business and which is not available for corporate purposes.

Thames River acquisition

While the purchase of Thames River completed on 1 September 2010, its acquisition had a significant impact on our reported financial results for 2011. Under the terms of the acquisition agreement, we paid an initial cash consideration of £33.6m for the business and, at 31 December 2010, had provided for a further estimated amount of cash consideration payable of £7.5m as a result of the net assets of the acquired entities exceeding specified targets. The majority of that additional consideration, some £7.4m, was paid in cash during 2011, with the remainder released to the Income Statement.

In addition to the consideration amounts set out above, the Group agreed further potential payments to the vendors, members and employees of Thames River. These amounts are generally dependent on the post-acquisition financial performance of Thames River and, given they are acquisition related, have been excluded from underlying earnings.

Firstly, the Group established a Management Retention Plan (MRP) to retain and incentivise certain key individuals within Thames River.

Under this plan some 21.7 million F&C shares were awarded, which will be issued and vest to employees in September 2013. At the date of announcing the acquisition, these share awards had a value of some £15.0m. The value of the share awards at the date of grant is treated as an expense over the vesting period and a cost of £4.7m under this plan has been recognised in the 2011 results.

Secondly, the Group also established a Management Incentive Plan (MIP), under which a maximum of some 29 million shares, with a value of £20m at the date of announcing the acquisition, may be issued to certain key individuals within Thames River. To date, awards over 14.2 million shares have been issued. The vesting of these awards is dependent on the achievement of three performance conditions; a profit target measured at 31 December 2011, a further profit target measured at 30 June 2012 and the cumulative profitability of Thames River over the 48 months ending 31 March 2014.

The 31 December 2011 profit target was not met, and the Group does not expect that the 30 June 2012 or 31 March 2014 profit targets will be met. As a consequence, we do not believe any shares will be issued under the MIP and previously recognised accounting charges of £0.1m in respect of the MIP have reversed during 2011 and are recognised as a credit in the Income Statement.

Thirdly, the acquisition agreement provided that the Group would pay additional consideration to the vendors of Thames River based on achievement of the same 31 December 2011 and 30 June 2012 profits targets as for the MIP. At 31 December 2010, the Group had estimated that £7.5m may be payable and had provided for this amount in the year end Statement of Financial Position. As the 31 December 2011 profit target has not been met and the Group does not expect the 30 June 2012 profit target will be met, the Board does not expect that any shares will be issued to the vendors. This liability has therefore been released, in accordance with IFRS, to the 2011 Income Statement.

At the time of the acquisition, the Group entered into agreements (the Commutation Arrangements) with the Individual Members of the Thames River Limited Partnerships. Under the Commutation Arrangements, the Group agreed, under certain circumstances, to purchase part of the Individual Members' profit share in the partnerships by issuing F&C shares in consideration. As the Commutation Arrangements can only be exercised by members who are still actively involved in the Thames River business and those members must continue in the business for a further two years to receive the full amount of their consideration, IFRS requires the estimated value of the shares which may be issued under the Commutation Arrangements to be treated as an expense, recognised between the date of award and the expiry of the period in which the member must remain in the business. The Commutation Arrangements can be split into two parts.

Under the first commutation, an investment team which has positive fund flows in the 12 months prior to the commutation date can require the Group to purchase a proportion of their profit share. This

commutation may be exercisable in 1H 2012. At 31 December 2011, the Group has assessed which investment teams would be able to exercise this right if it had crystallised at that date and a charge of £3.6m has been recognised in the 2011 Income Statement in respect of these arrangements. If the first commutation had occurred at 31 December 2011, the Group would have issued approximately 10.9 million new shares in satisfaction of its obligations.

Under the second commutation, the Group can, if it wishes, acquire profit share from each or any investment team. The maximum amount of profit share which can be acquired through the first and second commutation is typically 20% of the profit share of each investment team. An accounting cost of £2.5m has been recognised in the 2011 Financial Statements in respect of those teams where it appears economically attractive at December 2011 to exercise the commutations. If the second commutation had occurred at 31 December 2011, the Group would have issued approximately 12.6 million new shares in satisfaction of its obligations. No commitment to exercise those commutation rights has been made.

The aggregate commutation expense of £5.7m therefore reflects the charge of £6.1m for the first and second commutation options, less a £0.4m credit, which primarily relates to options which are no longer assumed to be exercisable.

Net revenue

Net revenue for the year was £267.0m (2010: £243.2m). This included £11.8m (2010: £12.9m) of performance fee income. Performance fee income was earned from a variety of fund and client types, with the most significant contributors being the Thames River funds and F&C REIT, our property business. Performance fees from Thames River were biased towards 1H 2011. Thames River contributed £40.5m of non-performance fee income to the Group during the year.

While our strategic partners remain an important part of our client base, we believe our strongest growth opportunities are with third-party clients – for institutional business and in the retail and wholesale channels. While £7.8 billion of gross new third-party business was funded during 2011, net new business was flat, reflecting the difficult market environment faced by retail and wholesale clients.

Net funds flows and related annualised revenues represent a key performance indicator and are indicative of the growth potential of the business. In this regard, it is pleasing to report that despite difficult market conditions in the second half of the year, which had a detrimental impact on flows in our mutual funds business, we remained in positive flows for our third-party business for the year as a whole.

Revenue margin

Our revenue margin excluding performance fees, measured as our net management fee income divided by average assets under management, increased from 22.6 basis points in 2010 to 24.4 basis points in 2011. While we have historically used revenue margin

as a key performance indicator, our emphasis on this measure will decline, in light of the revised strategy for the Group's institutional business announced in October 2011. The Group indicated that its institutional strategy will increasingly focus on highly scalable products, with relatively low revenue volatility and a high incremental profit margin. Accordingly, success in implementing this strategy could see the Group add large volumes of low fee margin business, but whose profitability would be reflected through an improving operating margin and operating profits.

Operating expenses

The Group's underlying operating expenses, excluding amortisation of intangible assets and exceptional items, were £202.1m in 2011, compared to £177.0m in 2010. During 2010, Thames River was included in the Group's results for the four months from completion of the acquisition and its costs for the period were some £12.6m, comprising £6.6m of operating expenses and £6.0m of profit share payable to LLP members. Thames River's results have been included in the Group Income Statement for the full year in 2011 and its costs for that period were some £21.1m of underlying operating expenses and £18.3m of distributions to LLP members. This difference represents the majority of the year-on-year movement in our cost base.

One of the key costs for an asset management business is remuneration costs, which are correlated to staffing levels. At 31 December 2011, our headcount, on a full-time equivalent basis, was 847 compared to 962 at 31 December 2010. The majority of the reduction in headcount arose from the transfer of back and middle office staff as a result of the outsourcing agreement signed with State Street during the year. As we implement the headcount reductions arising from the strategic review we announced in October 2011 and the "rightsizing" initiatives associated with the outsourcing arrangements, we anticipate that this headcount number will reduce further.

During 2011, we incurred a number of exceptional operating costs, which are excluded from our underlying results. These include employment expenses, outsourcing expenses and litigation expenses.

During 2011 we announced two cost reduction programmes. The first – which we have termed "rightsizing" – will allow us to recognise cost savings in a range of functions as a result of our back and middle office outsourcing. These include our retained operations support and IT functions. The second cost reduction programme is an integral outcome of the strategy review, which targeted cost reductions in a number of our corporate functions and in business overheads. The majority of these cost savings will be realised through headcount reductions and during 2011 exceptional employment related costs of £8.7m have been recognised in respect of termination and benefits payments which represent the one-off cost to be incurred to generate the annualised savings. Whilst some of those amounts have been paid during 2011, part of this cost represents a liability for redundancies which will occur in

2012. We anticipate that further costs will be incurred during 2012 as remaining actions are implemented.

The outsourcing expense of £2.7m represents project management, implementation and consultancy costs incurred in connection with outsourcing of our back and middle office to State Street. Whilst this arrangement became effective part way through 2011, we continue to incur expenses associated with the transition to State Street's long-term, strategic operating platform. We anticipate this project will complete during 2012.

As disclosed in the 2010 Financial Statements, the Group had received put option notices under a Limited Liability Partnership Agreement from the two Individual Members of F&C Partners LLP, the Group's former fund of hedge funds business. The Group had sought a Court declaration as to the validity of the exercise of these notices. During 2011, the High Court held that the put options were validly exercised and required the Group to meet the option exercise price, of £7.8m plus costs and interest. As a consequence, the 2011 Income Statement includes a £1.9m net cost, representing the Group's professional fees and interest on the option proceeds. The put option payments, plus the estimate of the Individual Members costs to be borne by the Group, totalling some £10.7m, represent a goodwill payment to acquire the remaining 40 per cent. of F&C Partners LLP. However, as the group already controlled 60 per cent. of this business, IFRS requires that these amounts are recognised directly in reserves as a transaction between shareholders of the Group.

Operating margin

The Group's underlying operating margin for 2011 was 24.4 per cent. compared to 27.6 per cent. in 2010. Key reasons for the reduction in Group operating margin include the weaker performance fee yield compared to prior years and the full year impact of the acquisition of Thames River, which has a lower operating margin than the rest of the Group. Operating margin represents one of management's key performance indicators, and is measured as underlying operating profits as a percentage of net revenues.

For this purpose, adjusted operating profits represent operating profits before the impact of exceptional items but after deducting variable compensation payable to members of Thames River partnerships. As the results of the cost savings programmes are delivered, operating margin should improve from its 2011 level.

Financing revenue and expenses

The Group's Finance Revenue increased to £17.2m (2010: £11.1m). The principal reasons for this increase were £3.7m of performance-related income from carried interest investments, and an increase of £2.0m in expected returns on pension plan assets.

Our finance costs rose by £1.8m to £35.4m, with the majority of this increase representing the full-year interest cost of the additional senior loan notes issued part way through 2010 as part of the financing for the Thames River acquisition.

Amortisation and impairment of intangible assets

Under IFRS, when an acquisition is made, there is a requirement to recognise separately the fair value attributed to intangible assets, in our case, management contracts. The excess of consideration over the fair value of net assets acquired represents the business value and infrastructure and is recognised as goodwill.

Management contracts are separated by client category and are amortised over their estimated useful lives. Where an indicator of impairment occurs, such as greater than anticipated fund losses, we are required to review the carrying value of these contracts.

No such indicators of impairment arose during 2011 and accordingly no impairment charges were recognised.

We are also required to conduct an annual impairment review of the carrying value of goodwill. This review demonstrated that there was no impairment and hence no requirement to write-down goodwill.

Foreign exchange

A large proportion of the Group's business is conducted outside the UK and, consequently, the Group has significant exposure to foreign exchange rate movements. The main areas which are potentially exposed to exchange rate fluctuations are our revenues and our assets and liabilities. Approximately 52 per cent. of the Group's assets under management are denominated in Euros and, accordingly, a significant proportion of the Group's revenues are earned in Euros. During 2011, negligible exchange differences were recognised in the Income Statement and some £2.0m of losses were recognised in reserves in respect of revaluation of foreign operations.

F&C REIT

Our minority interest partners in F&C REIT, the Group's property asset manager, currently own 30 per cent. of the business. In certain circumstances, they can require F&C to purchase their interests at future dates and, under IFRS, a liability for this potential obligation is included in our financial statements. As this option is required to be carried at its fair value, representing 30 per cent. of the value of F&C REIT, it is revalued each year, with any revaluation gain or loss reflected in the Income Statement. During 2011, a downward revaluation resulted in a gain of £8.7m being included in the 2011 Income Statement. This gain is excluded from underlying earnings.

In addition to the arrangements described above, the F&C REIT minority interest partners have the opportunity to increase their ownership interest from 30 per cent. to 40 per cent. should F&C REIT achieve certain stretching financial targets over agreed periods. For accounting purposes, the valuation of the option provided by the earn-out mechanism is treated as a share-based payment expense and included in the Income Statement. As a result of a re-assessment of the likelihood of these financial targets being achieved, a credit of £4.8m was recognised in the Income Statement during 2011 and, consistent with prior years, this amount has been excluded from underlying earnings.

Underlying earnings

The Board utilises underlying earnings per share as one of its key metrics in assessing financial performance. The reconciliation between underlying earnings and statutory earnings is provided in note 10 to the Consolidated Financial Statements. Underlying earnings per share for the year ended 31 December 2011 were 5.5p (2010: 5.7p).

Dividends

As set out above, our underlying earnings for the year were 5.5p per share. An interim dividend of 1.0 pence per share was paid during the year. After a review of the results for the year, the market conditions that prevailed during the year and the business outlook for 2012, the Board has declared a final dividend of 2.0 pence per share. If approved by Shareholders, this dividend, together with the interim dividend, will result in a total dividend for the year of 3.0 pence per share. The Board is conscious of the need to balance returns to shareholders through dividends with the profit enhancing objective of repaying the Group's senior and subordinated loans over the medium term.

Cash resources

The Group has gross debt of some £275m (2010: £275m), comprising £125m of subordinated loan notes and some £150m of senior loan notes. Neither the subordinated loan notes nor the senior loan notes include any financial covenants.

At 31 December 2011, the Group held cash resources of £225m (2010: £202m), of which some £28m (2010: £23m) relates to policyholders and is not available for corporate purposes. A significant portion of cash is held in our regulated subsidiaries against their capital requirements. As asset management is a cash generative business, we should not require significant cash for working capital purposes beyond our regulatory capital requirements.

Our borrowings carry fixed rates of interest. The subordinated loan notes currently bear interest at 6.75 per cent. and the senior loan notes carry a fixed 9 per cent. interest rate. Our cash resources earn interest based on bank deposit rates. We use multiple counterparties for our cash deposits which are approved by the Group's credit committee. The maximum amount that can be held with a single counterparty is £25 million.

Our strategic approach and commitment to corporate responsibility (CR)

CR commitment

The Board is committed to maintaining the highest standards of governance and corporate citizenship. We recognise that in addition to our responsibilities to clients and shareholders we also have responsibilities to employees, suppliers, the environment, the companies in which we invest and the wider community in which we operate.

CR strategy

The Group has two overarching strategic CR ambitions:

- To enable our clients to respond effectively to changing dynamics in the world economy through our products and through influencing companies to improve business performance.
- To ensure that we meet the highest practicable standards of corporate responsibility in our own operations.

We have defined four key categories supporting our strategic ambitions: Marketplace, Environment, Workplace and Community.

We are committed to monitoring and reporting on progress against the targets set within each category, both internally (on a quarterly basis) and externally (at least annually). F&C's CR policies are guided by a number of broadly accepted international standards and benchmarks. Wherever practicable, we seek external validation of our progress and publish these results.

F&C considers the following key external measures to validate our relative CR performance.

External validation

	2010 position	Existing position	2012 target
BITC Corporate Responsibility Index	Gold status	Platinum status	Platinum status
EIRIS/FTSE4Good	Inclusion	Inclusion	Inclusion
UN Global Compact CCP	Inclusion	Inclusion	Inclusion
Carbon Disclosure Project	Member	Member	Member
Principles for Responsible Investment	Founding signatory	Founding signatory	Founding signatory

F&C identifies its key stakeholders as shareholders, clients, employees, suppliers, government and non-government organisations, the wider community, other asset management companies and companies in which we invest. We engage widely with stakeholder groups through regular dialogue tailored to meet the requirements of each stakeholder group.

CR categories supporting the strategic ambitions

F&C has established key performance indicators (KPIs) for each of the CR categories detailed below, details of which can be found in

the Corporate Responsibility section of the Group's website. A summary of our objectives in each area is set out below.

Marketplace

F&C will use the influence of its clients' assets to engage with companies on all relevant CR matters where this will improve business performance. F&C intends to achieve 435 milestones (being an instance in which a company improves its policies, procedures or practices following engagement and where F&C's participation has been a major factor) in 2012.

F&C will issue voting instructions in line with its Corporate Governance Operational Guidelines on 100 per cent. of global resolutions that it is mandated to on behalf of clients and will publish its voting history. F&C will contact 100 per cent. of companies following an abstention or vote against management.

Environment

F&C is targeting carbon neutrality internally and is committed to helping our clients and suppliers cut carbon emissions. Over the next three years F&C will obtain 100 per cent. of its energy usage from renewable sources, where such markets exist.

F&C will source 100 per cent. of its paper from chlorine free recycled supplies, reduce waste to landfill by 20 per cent. and increase its own recycling by 20 per cent.

F&C will actively embark on an internal education programme on the effect that water and waste management has on the environment.

F&C, through its marketplace engagement activity, will widen its influence to the companies in which it invests.

Examples of some of our 2011 community or charity events

75 members of staff participated in the JPMorgan Chase Corporate Challenge, held in Battersea Park, London, raising funds for Barnardos.

Throughout 2011, 38 members of staff based in Edinburgh participated in a variety of volunteering events which included painting and gardening at three local primary schools.

6 members of staff in the London office participated in the London Marathon, raising funds for a variety of charities, including British Heart Foundation, Parkinsons UK and Arthritis Care.

More than 20 members of staff based in the UK volunteered for a variety of events held by the Charity of the Year, Back Up Trust.

5 members of the Dublin office participated in a volunteering project, painting a residence for a previously homeless single parent.

Corporate responsibility key performance indicators

Category	KPI/statistic	2011 performance	2012 targets
Marketplace	Number of resolutions voted on during the year	100%	100%
	Proportion of companies contacted following an abstention or vote against management	100%	100%
	reo® engagement successes in year	480	435
Community	Staff participation in Give as You Earn	12%	15%
	Employees participating in charitable events and charitable fundraising	235	475
	Staff volunteering for community projects	90 staff days	365 staff days
Environment	Carbon neutrality	Full	Full
	Reduction in paper consumption	5%	5%
Workplace	Diversity training (staff coverage)	100%	100%

Workplace

F&C is committed to ensuring good practices in managing its own workplace issues.

F&C will undertake an employee survey and will, in 2012, target top decile employee participation levels.

F&C always seeks to employ the best person for each job and does not discriminate on grounds of gender, race, ethnicity, religion, sexual orientation, age or physical disability. F&C will educate 100 per cent. of employees on the importance of recognising and embracing diversity in the workplace and the community as a whole.

F&C encourages share ownership and will continue to operate all-employee share schemes.

Community

F&C offers financial support and, wherever practicable, offers employees time off work to support charitable activities.

In 2012 F&C is targeting 365 staff days of community work.

F&C targets 15 per cent. of employees participating in the Give As You Earn scheme and will match employee contributions up to a set monthly level.

How is Corporate Responsibility implemented by F&C

The Board is ultimately responsible for CR within the Group. Development of F&C's policies on CR and their implementation throughout the Group are co-ordinated by the CR Committee, chaired by David Logan.



Alain Grisay

23 March 2012



David Logan

23 March 2012

Company Directors



Non-executive Directors

2 Keith Bedell-Pearce CBE

Senior Independent Director

Mr Bedell-Pearce, a solicitor, joined the Board in December 2002. Until December 2001, Mr Bedell-Pearce was an executive director of Prudential plc with over 30 years experience in the financial services industry. He is currently chairman of 4D Data Centres Ltd and a member of the Council of the University of Warwick.

3 Ian Brindle

Mr Brindle joined the Board in February 2011. Mr Brindle was UK chairman of PricewaterhouseCoopers LLP and deputy chairman of the Financial Reporting Review Panel. He is currently the chairman of Sherborne Investors (Guernsey) A Limited and a non-executive director of Spirent Communications plc, Elementis plc and 4imprint Group plc.

4 Keith Jones*^o

Independent Director

Mr Jones joined the Board in November 2011. Mr Jones is a former chief executive officer of Morley Fund Management and former CEO of NPI Investments and a past chairman of the Investment Committee of the Association of British Insurers. He currently holds non-executive positions at Just Retirement Holdings Ltd, Espirito Santo Investment Bank and Aon Hewitt, and advisory positions at Lloyds Bank and Permira LLP.

5 Jeff Medlock*^o

Independent Director

Mr Medlock joined the Board in October 2004. Mr Medlock was chief executive officer of Eureka from its formation in 1992 until 1999 when he became chief financial officer at Achmea. He returned to the board of Eureka

in 2002 shortly after its merger with Achmea and Seguros e Pensoes as chief financial officer until his retirement in 2004. He is also a trustee of the children's charity Coram Life Education.

6 Derham O'Neill*^o

Independent Director

Mr O'Neill joined the Board in February 2011. Prior to his appointment, Mr O'Neill was a senior partner of Clifford Chance LLP. He is currently the chairman of Schroder Asian Property Managers Limited (Bermuda) and was formerly the chairman of Scotty Group plc and a non-executive director of Cedar plc, Georgica plc, and Schroder Venture Managers Limited (Bermuda).

7 Keith Percy^o

Independent Director

Mr Percy joined the Board in November 2011. Mr Percy was most recently executive chairman and chief executive officer of Société Générale Asset Management UK and was previously chief executive of Morgan Grenfell Asset Management. He is a director of Brunner Investment Trust plc, Standard Life Equity Income Trust plc, Henderson Smaller Companies Trust plc, JP Morgan Japanese Investment Trust plc and The Childrens Mutual.

8 Kieran Poynter*^o

Independent Director

Mr Poynter joined the Board in June 2009. Prior to his appointment, Mr Poynter was chairman and senior partner of PricewaterhouseCoopers LLP having spent 37 years with the firm. He is a director of Nomura International plc, International Consolidated Airlines Group SA and British American Tobacco plc.

Executive Directors

1 Edward Bramson[†]

Executive Chairman

Mr Bramson joined the Board and was appointed Chairman in February 2011 and Executive Chairman in October 2011. He is currently a partner of Sherborne Investors and was formerly chairman of Spirent Communications plc, Elementis plc, 4imprint Group plc, Nautilus, Inc and Ampex Corporation.

9 Alain Grisay

Chief Executive

Mr Grisay joined the Board in October 2004 having previously been Deputy Chief Executive of F&CGH and head of the institutional business. Prior to joining F&C in April 2001, Mr Grisay was at JP Morgan for 20 years, serving as managing director responsible for the investment bank's market client business in Europe.

10 David Logan

Chief Financial Officer

Mr Logan joined the Board on 31 July 2006. Prior to his appointment, Mr Logan spent seventeen years in the accounting profession, including four years as a partner at Deloitte & Touche LLP and three years as a partner at Andersen.

[†] Member of the Nomination Committee

^{*} Member of the Remuneration Committee

[†] Member of the Audit & Compliance Committee

^o Member of the Risk Committee (created in March 2012)

Report of the Directors

Results, business review and dividend

The Group's results for the year ended 31 December 2011 are shown in the Consolidated Income Statement on page 42. A business review of the year ended 31 December 2011 and future developments are covered on pages 2 to 21. This review, together with the Directors' Report on Corporate Governance on pages 27 to 33, forms part of the Report of the Directors.

The Group profit for the year, after tax, amounted to £2.6 million.

The Directors recommend a final ordinary dividend of 2.0 pence per share, amounting to £10.4 million, resulting in a total of 3.0 pence and £15.6 million for the year.

The final ordinary dividend, if approved, will be paid on 25 May 2012 to ordinary shareholders whose names are on the register on 30 March 2012. No liability for the proposed dividends has been recognised as at 31 December 2011, in accordance with IFRS.

Principal activity and status

The Group's business is asset management. Details of the progress of the business during the year and of future prospects are contained in the Chairman's Statement, the Chief Executive's Report and the Business Review on pages 2 to 21.

The Company is registered as a Public Limited Company in terms of the Companies Act 2006 and is currently a constituent of the FTSE 250 Index. The Company is registered in Scotland, registered number SC73508, and is domiciled in the United Kingdom.

Details of the principal entities within the Group are contained in note 39 to the Consolidated Financial Statements. There are also two branch offices in the Group outside the UK, in Germany and Ireland.

Significant agreements

F&C is party to the following significant contracts that take effect, alter or terminate upon a change of control of the Company:

Friends Life Group (FL Group)

There are four material Investment Management Agreements (the Agreements) that have been in place with companies within the FL Group since October 2004 and under which assets are managed by F&C. Management of the majority of these assets can only be terminated by the relevant contracting party within the FL Group upon 12 months' notice expiring no earlier than 11th October 2014 subject to certain exceptions listed within the Agreements. These exceptions include withdrawals of assets as a result of underperformance thresholds being triggered, withdrawals for reasonable business and financial needs (such as discharging liabilities under insurance contracts and meeting internal financing requirements), and withdrawals of assets of up to £150 million per annum in respect of the overall portfolio of assets covered by each of the Agreements. Withdrawals of assets not permitted under the Agreements require the payment of compensation by the FL Group to F&C. Management of the remainder of the assets of the FL Group by F&C (known as the Demutualisation Assets) can be

terminated at any time by the relevant contracting entity within the FL Group either, in the case of the "With Profits" fund assets, upon 6 months' notice or, in the case of the other Demutualisation Assets, upon 12 months' notice. As previously notified in the Company's Interim Management Statement in January of this year, F&C is on notice from the FL Group for the withdrawal of £2.3 billion of the Demutualisation Assets, such withdrawal to take effect in December 2012.

Achmea Group

There are four material Investment Management Agreements (the Agreements) that have been in place with companies within the Achmea Group since October 2004. These Agreements sit alongside an overarching Umbrella Agreement which sets out the high level terms governing the relationship between the F&C Group and the Achmea Group including the operation of F&C's rights to exclusivity over the management of assets of the Achmea Group. Management of the majority of these assets can only be terminated by the relevant contracting party within the Achmea Group upon 12 months' notice expiring no earlier than 11th October 2013 subject to certain exceptions listed within the Agreements. These exceptions include withdrawal of assets for reasonable business needs, including strategic acquisitions and assets withdrawn following termination for underperformance by a particular asset class by a specified margin below the applicable investment benchmark and assets withdrawn pursuant to an allocation to an asset class not covered by exclusivity rights (for example venture capital investments). Withdrawals of assets not permitted under the Agreements require the payment of compensation by the Achmea Group to F&C. Management of the remaining assets of the Achmea Group by F&C can be terminated at any time upon provision of notice.

Millennium BCP Group (BCP)

The consequences of termination of the various agreements with BCP-related funds are regulated by an Umbrella Agreement with BCP (the UA). The UA provided that compensation would be payable if any of these agreements are terminated before 29 June 2013. If a person acquires an interest in the shares of F&C which is larger than the aggregate interest of Friends Life and Achmea, then the period by reference to which compensation is payable by BCP to F&C on termination of such an agreement is reduced. On 17 December 2010, Sherborne acquired an interest in the shares of F&C which is greater than the aggregate interest of Friends Life and Achmea thereby reducing the period by reference to which compensation would have been payable had an agreement been terminated at that time from 42 months to 12 months. Further communications from BCP have put F&C on notice that payments by BCP in respect of F&C's continued provision of services to BCP, constitutes payment in lieu of compensation and that the agreements could be terminated by BCP at any time without compensation or notice. As at the latest practicable date prior to the publication of this Annual Report and Financial Statements, none of the relevant agreements has been terminated and no notice terminating such agreements has been received.

Foreign & Colonial Investment Trust Plc

The Investment Management Agreement in place with Foreign & Colonial Investment Trust Plc can be terminated by the trust on a minimum of six months' notice expiring at the end of any calendar month. In the event that there is a change of control in F&C (as defined in Section 1124 of the Corporation Tax Act 2010), then the investment trust is entitled to terminate the agreement on not less than three months' notice to expire at the end of any calendar month.

F&C Commercial Property Trust Limited

The Investment Management Agreement in place with F&C Commercial Property Trust Limited can be terminated by the investment trust on not less than six months' notice. Early termination can be undertaken by the investment trust, but only subject to the payment of compensation to F&C based on revenue stream. Immediate termination is possible by the investment trust in the event that there is a change of control in F&C (as defined in Section 1124 of the Corporation Tax Act 2010) which has not been consented to by its Board.

F&C REIT Asset Management LLP

The F&C REIT Asset Management LLP (the LLP) Limited Liability Partnership Agreement, dated 21 July 2008, is between F&C, the two individual members and a separate company controlled by discretionary trusts.

Where there is a change of control of F&C, F&C can elect to change the arrangements for voting at LLP members' meetings such that F&C's interests are represented by one vote and the REIT Parties' aggregate interests are represented by one vote. If F&C does not so elect, then F&C may be required to offer to sell its interests in the LLP to the other members of the LLP at a price determined by an independent valuer.

Property, plant and equipment

Details of changes in property, plant and equipment are disclosed in note 12 to the Consolidated Financial Statements. At 31 December 2011, there were no significant differences between the net book and market values of property, plant and equipment.

Financial instruments

Details of financial instruments are disclosed in notes 14 and 18 to the Consolidated Financial Statements. The financial risk management objectives and policies of the Group are contained in note 36.

Share capital and Directors' interests

The Company did not issue any ordinary shares in respect of vested awards or options under the Company's long term incentive schemes in 2011.

Details of shares under option at 31 December 2011 are shown on page 137. The Directors who held office at the year end and their interests (together with those of their connected persons) in the share capital of the Company are shown below:

Ordinary Shares		31 Dec 2011**	31 Dec 2010**
Edward Bramson	Beneficial	Nil	Nil
	Non-Beneficial†	106,397,130	96,329,200
Keith Bedell-Pearce	Beneficial	51,285	51,285
Ian Brindle	Beneficial	Nil	Nil
	Non-Beneficial*	64,176	64,176
Alain Grisay	Beneficial†	562,657	2,062,657
	Non-Beneficial*	64,176	64,176
Keith Jones	Beneficial	Nil	Nil
David Logan	Beneficial	344,627	198,428
	Non-Beneficial*	64,176	64,176
Jeff Medlock	Beneficial	20,000	20,000
Derham O'Neill	Beneficial	Nil	Nil
Keith Percy	Beneficial	Nil	Nil
Kieran Poynter	Beneficial	30,000	30,000

‡ Edward Bramson is an associate of SIGA, LP, a member of the Sherborne Group.

† These shares include Mr Grisay's participation in the Purchased Equity Plan. Further details of this plan are set out in the Directors' Remuneration Report on page 35.

* Alain Grisay and David Logan are Directors of F&C Group ESOP Trustee Limited, a company incorporated in 1995 as a discretionary employee benefit trust to encourage and facilitate the acquisition and holding of shares in the Company by employees.

** Or date of appointment if later.

Since the year end, the following Directors' dealings (and those of their connected persons) in the Company's shares have taken place:

- Mr Logan subscribes for £125 worth of shares each month under the Company's Share Incentive Plan, details of which are set out on page 35; and
- On 15th March 2012, Alain Grisay sold 65,000 shares at a price of 70.12 pence per share.

Directors' and officers' liability

The Group maintains insurance cover in respect of Directors' and officers' liability.

The Directors have the benefit of an indemnity in accordance with the Company's Articles of Association at article 166 which is a qualifying third-party indemnity provision as defined in the Companies Act 2006.

Charitable and political contributions

During the year, the Group made contributions to charity of £274,000 (2010: £211,000). No political donations or contributions were made during the year (2010: £nil). Further details on the criteria for charitable giving are contained on the Company's website.

Payment policy and practice

It is the Group's policy to ensure settlement of suppliers' accounts in accordance with the stated terms. In certain circumstances, settlement terms are agreed prior to any business taking place. It is our policy to abide by those terms.

At 31 December 2011, trade creditors represented the equivalent of 3 days (2010: 9 days) of the annual purchases invoiced by the suppliers to the Group.

Substantial interests in share capital

The Company has been informed of the following substantial interests, above 3 per cent. as at 23 March 2012:

	Ordinary Shares	Percentage
Sherborne	106,397,130	19.99
Fidelity Worldwide	53,158,667	9.99
Aviva	48,621,733	9.14
Sarasin & Partners	25,381,134	4.77
M&G Investments	18,606,636	3.50
Legal and General	16,365,403	3.07

Employees

At 1 March 2012, there were 776 full-time employees and 84 part-time employees within the Group (1 March 2011: 898 full-time employees and 84 part-time employees).

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

Employee involvement

During the year, the policy of providing employees with information about the Group has been continued through internal presentations by the Executive Directors and Group Management and the internal publication of relevant information. Wherever appropriate, employees are consulted to ensure that their views are taken into account before decisions are taken which are likely to affect their interests.

Equal opportunities

The Group aims to provide equal opportunities for all, without discrimination on the grounds of race, religion, marital status, age, sex, sexual orientation or disability. We recruit and promote those best suited for the job. The Group respects the dignity of individuals and their beliefs. The Group does not tolerate any sexual, racial, physical or mental harassment of staff in the work place.

Share incentive schemes

During the year, employees participated directly in the business through a number of Employee Share Schemes, details of which are included within the Directors' Remuneration Report on pages 34 to 39 or the notes to the Consolidated Financial Statements on pages 90 to 98.

Annual General Meeting (AGM)

The Company will hold its AGM on Wednesday, 9 May 2012 at Ironmongers Hall, Shaftesbury Place, Barbican, London EC2Y 8AA.

The Meeting will start at 10 a.m. (UK time). Details of all resolutions being put to shareholders are set out in the Notice of Annual General Meeting commencing on page 141.

Board changes

On 3 February 2011, at a General Meeting of the Company, shareholders approved the appointment of Messrs Bramson, Brindle and O'Neill to the Board and resolved that Messrs MacAndrew and Larcombe be removed from the Board.

On 6 October 2011, Alain Grisy, the Company's Chief Executive, announced his intention to retire on conclusion of this year's Annual General Meeting. The Board are in the process of reviewing the Company's succession plans for the Chief Executive position and will make an announcement in due course.

On 25 November 2011, Messrs Jones and Percy joined the Board as independent Non-executive Directors.

Information relating to the re-election of Directors at the Annual General Meeting is set out in the Directors' Report on Corporate Governance on page 31.

Authority to allot ordinary shares and disapplication of pre-emption rights

Ordinary resolution 14 will be put to the AGM of the Company to renew the Directors' power to allot shares. The Directors currently have a general authority to allot relevant securities up to a maximum amount of £177,355.19 together with specific authorities to allot shares to satisfy the consideration payable in connection with the acquisition of Thames River and the related commutation arrangements and for the settlement of awards made under the management share plans (the Specific Authorities). The resolution proposes that a similar general authority be granted in substitution of the existing general authority to allot securities up to a maximum amount of £177,355.19, representing approximately 33.33 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report. The Specific Authorities will remain unaffected by the passing of this resolution.

In addition, in accordance with guidance issued by the Association of British Insurers in December 2008, the Company is seeking additional authority to allot securities in connection with a pre-emptive rights issue up to a maximum amount of £177,355.19, representing approximately 33.33 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report. The benefit to the Company of obtaining such authority on an annual basis is that it would allow the Company to implement a rights issue of an amount equal to approximately 66.67 per cent. of the issued ordinary share capital without the need to call an additional general meeting. This would shorten the implementation timetable for such a rights issue. The Directors have no present intention of exercising this authority. The authority will expire at the end of the AGM to be held in 2013, unless previously cancelled or varied by the Company in general meeting. It is the intention of the Directors to renew this authority annually at each AGM.

Special resolution 15 will renew the present power to allot unissued ordinary share capital and to sell ordinary shares held in treasury for cash without first being required to offer such shares to existing shareholders in proportion to their existing shareholdings.

Such power will apply to the allotment of unissued ordinary shares and treasury shares sold up to a maximum nominal amount of £26,605.94 representing approximately 5 per cent. of the Company's issued ordinary share capital as at the date of this report, except that:

- (1) the maximum nominal amount of shares that can be allotted in connection with a pre-emptive rights issue is £354,710.38 representing approximately 66.67 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report; and
- (2) the maximum nominal amount of unissued ordinary shares that can be allotted or treasury shares sold:
 - (a) pursuant to any other pre-emptive offering (where legal or regulatory requirements prevent the issue of shares wholly on a pre-emptive basis); or
 - (b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting,

is £177,355.19, representing approximately 33.33 per cent. of the Company's total issued ordinary share capital (excluding treasury shares) as at the date of this report.

The Directors consider that the authority proposed to be granted by resolution 14 and the power proposed to be granted by resolution 15 are necessary in order to take advantage of opportunities as they arise and to retain flexibility. The Directors do not have any intention of exercising such authority or power at the present time other than for the purposes referred to in (2)(b) above.

Purchase of own shares

Special resolution 16 will be put to the AGM to renew the present power to make market purchases of the Company's own ordinary shares. Pursuant to the renewed power, the maximum aggregate number of ordinary shares which may be purchased pursuant to the authority shall be 53,211,879 (being approximately 10 per cent. of the issued ordinary share capital of the Company as at the date of this report). The minimum price which may be paid for an ordinary share shall be 0.1 pence (exclusive of expenses). The maximum price for an ordinary share (again exclusive of expenses) shall be an amount equal to 105 per cent. of the average of the middle market quotations for the Company's ordinary shares for the five business days immediately preceding the date of purchase. The power conferred by this resolution will expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2013.

As at the date of this report, the Company had 105,957,664 options to subscribe for ordinary shares outstanding (representing 19.91 per cent. of the issued ordinary share capital of the Company at the

same date, excluding treasury shares). If the buy-back authority is renewed at the 2012 AGM and is then utilised in full, the options outstanding at the date of this report would represent 22.12 per cent. of the issued ordinary share capital of the Company (excluding treasury shares).

Any ordinary shares purchased pursuant to this authority would either be held as treasury shares or cancelled. While any shares are held in treasury, voting rights are suspended and currently no dividends (or any other distribution) are paid (or made) on such shares. The Directors consider it appropriate to have in place the facility to acquire shares in circumstances where they believe that future shareholder returns can be enhanced by taking such action. This authority, if renewed, will only be exercised if to do so would result in an increase in earnings per ordinary share and if it is considered to be in the best interests of shareholders generally.

Notice of General Meetings

We are currently able to call general meetings (other than AGMs) on 14 days' notice. We are proposing Special resolution 17 at the Meeting so that we can continue to be able to do so. The flexibility offered by this resolution will only be used where it is, in the opinion of the Directors, appropriate in relation to the business to be considered at the meeting and merited in the interests of the shareholders as a whole.

The authority being sought pursuant to Special resolution 17 will expire at the conclusion of the AGM to be held in 2013. It is the current intention of the Directors to renew this authority annually.

Auditor

KPMG has expressed its willingness to continue in office as auditor and a resolution proposing its re-appointment and for the Directors to determine its fees will be submitted at the AGM.

Details of the auditor's remuneration is provided in note 4(c) to the Consolidated Financial Statements and further detail on how the Board ensures the independence of the auditor is detailed on pages 32 and 33 within the Directors' Report on Corporate Governance.

Adequacy of the information provided to the auditor

The Directors who held office at the date of approving this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board,

W Marrack Tonkin, FCCA

Secretary
80 George Street
Edinburgh EH2 3BU

23 March 2012

Directors' Report on Corporate Governance

The Group is committed to, and strives for, best practice in corporate governance. The Board is accountable to the Group's shareholders for good corporate governance. This statement describes how the principles of corporate governance set out in section one of the UK Corporate Governance Code issued in 2010 (the Code) have been applied.

Statement of compliance

The Directors consider that the Company has, throughout the year ended 31 December 2011 and up to the date hereof, applied the principles and met the requirements of the Code with the following exceptions:

- The Company did not comply with Code provision A.3.1 in that Mr Bramson, the Company's Chairman was, by virtue of his participation in Sherborne (the Company's largest shareholder), not independent on appointment.
- On 6 October 2011 Mr Grisay announced his intention to retire from the Board with effect from the conclusion of this year's Annual General Meeting. On the same date, the Company announced that Ed Bramson, the Company's Chairman, would take on the role of Executive Chairman to oversee the implementation of the strategic review that was underway at that time. Mr Bramson's appointment as Executive Chairman is for an interim period only. While the Board acknowledges that the temporary appointment of Ed Bramson as Executive Chairman does not meet the best practice guidance set out in the Code (Provision A.2.1), they believe it to be appropriate given the strategic review work being performed by Mr Bramson.

The Chairmen of the Audit, Risk & Compliance, Remuneration and Nomination committees will be available to answer questions at this year's Annual General Meeting to be held on Wednesday, 9 May 2012.

Going concern

The Code requires Directors to report, under the terms set out in the relevant guidelines to the Code, on the appropriateness of adopting the going concern basis in preparing Financial Statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 21. The financial position of the Group, its cash flows and liquidity position are described in the Business Review on pages 2 to 21. In addition, note 36 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of clients across different geographic areas and industries. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

The Board

The Board of Directors currently comprises the Executive Chairman, two further Executive Directors and seven Non-executive Directors, six of whom the Board has identified as Independent Directors. Ian Brindle, a representative of Sherborne, the Company's largest shareholder, does not meet the criteria of independence as set out in the accepted guidance.

The biographies of the Directors appear on page 22. These demonstrate a range of experience, skills and personal standing sufficient to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the Group. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board meets formally on a regular basis and is responsible for approving the Group's objectives and policies. The Board focuses mainly on strategy, investment and financial performance, the Group's control environment and executive management and Board succession. To enable the Board to discharge its duties, all Directors receive appropriate and timely information ensuring that they are properly briefed on issues for consideration in advance of meetings. In addition, all Directors have access to senior management and can request, either during meetings or at other appropriate times, further explanation or written papers on matters as they see fit.

The Board has a detailed list of matters specifically reserved to it – the 'Board Reserved List'. This is contained in 'The Directors' Guide', a training and reference document issued to all Directors on appointment and updated as appropriate. The Board Reserved List is reviewed annually and clearly sets out what authority is delegated from the Board to Board Committees and to management. This ensures that matters of significance are overseen and reviewed by the Board prior to implementation. Examples of matters reserved for the Board as set out in the Board Reserved List are the approval of: the Group strategy; the annual budget; the composition and terms of reference of any of the Board Committees; the high level organisational structure; and the review of the effectiveness of the Group's system of internal control.

The composition of the Board is reviewed annually.

The Board committees

The Board has established a number of standing committees to facilitate the smooth transaction of business within the Group.

The terms of reference of each Board Committee, outlining its authority and duties, are reviewed and approved annually by the Board, published on the Company's website and are available on written request from the Company Secretary. The terms of reference of each of the Board Committees provide the authority to take independent professional advice, if necessary, at the Company's expense.

Statement of diversity policy

The Group recognises the value of a diverse workforce and aims to attract and retain the best people from the widest pool of talent, experience and perspectives drawn from all sections of society. We believe that differences in gender, background, perspective, expertise and culture are an asset to the Company.

The diversity of the Board is intended to be improved when new appointments are made as a result of Director rotation. As a result, the Company's succession planning process has been revised to include the Company's commitment to improved diversity (including gender diversity).

Consistent with the Board's intention to improve diversity through Director rotation, we anticipate that there will be at least one female Director appointed to the Board by 2013.

(A) Statement of the Nomination Committee

Purpose and Terms of Reference

The Committee leads the process, and makes recommendations to the Board, for all new Board appointments and the appointment of Non-executive Directors to any Board Committee. It is responsible for evaluating the balance of skills, knowledge and experience on the Board and ensuring that a formal, rigorous and transparent appointment process exists.

Membership

The Committee is chaired by Edward Bramson. The Committee comprises the Executive Chairman and two independent Non-executive Directors.

Members of the Nomination Committee:

Edward Bramson (appointed Chairman on 3 February 2011), Keith Bedell-Pearce and Kieran Poynter (appointed 1 March 2011).

Nick MacAndrew and Brian Larcombe served as members of the Committee until their removal from the Board on 3 February 2011.

Activities and work of the Committee

Throughout 2011 external search consultants were engaged by the Committee to conduct a search for two additional independent Non-executive Directors. Having identified suitable candidates, the Committee recommended the appointment of Keith Jones and Keith Percy to the Board in October 2011. Messrs Jones and Percy joined the Board in November 2011 following receipt of their necessary FSA approvals.

As an integral part of its succession planning, the Committee reviews the balance and composition of the Board including the number of Directors serving thereon.

On an annual basis the Committee reviews the terms and conditions of appointment of Non-executive Directors set out in the standard letter of appointment to ensure that they continue to meet the requirements of the Code. This standard letter of appointment can be inspected during normal working hours at the Company's registered office by contacting the Company Secretary. The Committee considers, on an annual basis, the time required of Non-executive Directors for the fulfilment of their duties and assesses the contribution of the Directors, their independence and their suitability for re-election prior to an appropriate resolution being put to shareholders. Under the Company's Articles of Association, all Directors are subject to election by shareholders at the first opportunity after their appointment and to re-election at least every three years. However, in line with the Code, all of the Directors are subject to annual re-election by Shareholders.

For the Board

Edward Bramson

Chairman, Nomination Committee

23 March 2012

(B) Statement of the Audit, Risk and Compliance Committee

Purpose and Terms of Reference

The Committee vouchsafes the processes and controls surrounding the production of the Group's Financial Statements and provides the Board with assurance that the processes and controls exist to facilitate reporting on the Group's risk management activities, including those related to Social, Environmental and Ethical matters, internal control and adherence to policies and procedures.

Membership

The Committee is chaired by Kieran Poynter. The Committee comprises solely independent Non-executive Directors.

The Board is satisfied that at least one member of the Committee has recent and relevant financial experience, a position that should continue throughout 2012.

Members of the Audit, Risk & Compliance Committee:

Kieran Poynter (appointed Chairman on 3 February 2011), Keith Bedell-Pearce (Chairman of the Committee until 3 February 2011), Jeff Medlock (appointed on 1 March 2011) and Derham O'Neill (appointed on 1 March 2011).

Brian Larcombe served as a member of the Committee until his departure from the Board on 3 February 2011 and Gerhard Roggemann served as a member of the Committee until he retired from the Board in May 2011.

Activities and work of the Committee

The Committee normally discharges its responsibilities, as allocated by its terms of reference, within a schedule of four meetings. Two meetings are held early in the year, one to deal with matters of governance (for example, compliance with the Code, the Financial Services and Markets Act, the effectiveness of internal controls and risk management systems, monitoring and reviewing the internal Audit Risk & Compliance department and monitoring and reviewing the independence, objectivity and effectiveness of the external audit process) and the other to consider the integrity of the year-end Financial Statements and any formal announcements relating to the Company's and the Group's financial performance, including any significant financial reporting judgements contained therein. A similar process is adopted at the interim reporting stage, with a final meeting taking place late in the year to consider relevant year-end matters. The Committee also considers and reviews other risk management or control documentation including the Group's policy on whistleblowing, the results of internal and external audit and compliance reports or management letters, and oversees the award of any non-audit related consultancy work. On an annual basis the Committee considers and makes a recommendation to the Board as to the appointment, re-appointment or removal of the external auditors and approves their remuneration and terms of engagement. Other meetings of the Committee are called at the request of the Chairman to consider ad hoc control issues that may emerge during

the year as well as other matters that the Board has asked the Committee to consider or investigate.

Changes effective March 2012

In March 2012 the Board resolved to split the existing Audit, Risk and Compliance Committee's activities into two distinct committees, each of which has separate Terms of Reference. The new committees are the Risk Committee and the Audit and Compliance Committee.

The newly created Risk Committee is chaired by Keith Percy. The other members of the Risk Committee are Jeff Medlock, Keith Jones, Derham O'Neill and Kieran Poynter.

The Audit and Compliance Committee's membership is unchanged from the former Audit, Risk and Compliance Committee.

For the Board

Kieran Poynter

Chairman, Audit, Risk & Compliance Committee

23 March 2012

(C) Statement of the Remuneration Committee

Purpose and Terms of Reference

Full details of the purpose, terms of reference, activities and work of the Committee are set out in the Directors' Remuneration Report.

Membership

The Chairman of the Committee is Keith Bedell-Pearce. The Committee comprises solely independent Non-executive Directors.

Members of the Remuneration Committee:

Keith Bedell-Pearce (appointed Chairman on 3 February 2011), Jeff Medlock (appointed on 1 March 2011), Derham O'Neill (appointed on 1 March 2011), Kieran Poynter (appointed on 3 February 2011) and Keith Jones (appointed 12 March 2012).

Brian Larcombe served as the Chairman of the Committee until his departure from the Board on 3 February 2011 and Gerhard Roggemann served as a member of the Committee until he retired from the Board in May 2011.

Attendees at the Remuneration Committee

Alain Grisay and the Group Head of Human Resources attended all meetings of the Committee in 2011. Ian Brindle also attended all Committee meetings in 2011.

Activities and work of the Committee

The Board is ultimately accountable for the Group's remuneration policy but delegates responsibility to the Remuneration Committee. The Remuneration Committee has resolved the following key issues during the year:

- Revised the remuneration policy and ensured that it meets the requirements of the FSA Remuneration Code (to the extent applicable to the Company);
- Recommended the remuneration of the Executive Directors to the Board;
- Reviewed and approved the remuneration of the Executive Committee and FSA Code staff;
- Approved that the performance targets in relation to long-term awards require no amendment at this stage;
- Overseen the Company's remuneration policy as it applies to executives, senior management and employees, including the discretionary cash bonus scheme and awards under the long-term incentive schemes;
- Verified that the remuneration policy does not encourage excessive risk beyond that of the appetite of the Company;
- Completed the annual review of the Committee Terms of Reference.

For the Board

Keith Bedell-Pearce

Chairman, Remuneration Committee

23 March 2012

Attendance at meetings

The following table identifies the number of Board and formal committee meetings held in 2011 and the attendance record of the individual Directors as members of committees of the Board. In addition to the scheduled meetings detailed below a number of ad hoc Directors' meetings, sub committees of the Board and Board Committees were held.

	Board	Non-executive Director meetings without management present	Audit, Risk & Compliance Committee	Remuneration Committee	Nomination Committee
Number of meetings held 2011/(2010)	7(7)	2(2)	5(5)	5(6)	2(2)
Edward Bramson ¹	5	2	–	–	2
Nick MacAndrew ²	1	–	–	–	–
Alain Grisay	7	–	–	–	–
Keith Bedell-Pearce	7	2	5	5	2
Ian Brindle ¹	5	2	–	–	–
Derham O'Neill ¹	6	2	3	2	–
Keith Jones ⁴	–	–	–	–	–
Brian Larcombe ²	1	–	–	2	–
David Logan	7	–	–	–	–
Jeff Medlock	7	2	3	2	–
Keith Percy ⁴	–	–	–	–	–
Kieran Poynter	7	2	5	3	1
Gerhard Roggemann ³	2	–	1	2	1

¹ Appointed to the Board in February 2011

² Removed from the Board in February 2011

³ Retired from the Board in May 2011

⁴ Appointed to the Board in November 2011

Board Roles

Chairman

The Executive Chairman of the Company is Edward Bramson. As Chairman, Mr Bramson is responsible for leadership of the Board and ensuring the effective running and management of the Board. The role profile of the Chairman includes the following specific responsibilities:

- Ensuring that the Board agenda for each meeting takes account of the issues and concerns of each Board member and that members of the Board receive accurate, timely and clear information on the Company and related matters to enable them to monitor the Group's performance and take sound decisions;
- Ensuring effective communication with shareholders and ensuring that the Board develops an understanding of the views of major investors;
- Ensuring that, in conjunction with the Company Secretary, a formal induction and development process, including any relevant internal and external training, exists for all Directors and the Board as a whole with a view to enhancing the Board's effectiveness; and
- Ensuring constructive relations between Executive and Non-executive Directors and an effective contribution from all Directors.

The performance of the Chairman is reviewed annually by the Non-executive Directors in a meeting chaired by the Senior Independent Director.

Chief Executive

The Chief Executive of the Company is Alain Grisy. As Chief Executive, Alain is responsible for overseeing the implementation of the strategy as set by the Board, providing strategic vision and executive leadership to all the Group's business activities and ensuring the effective running of the business and the Group Management.

Non-executive Directors

Messrs Bedell-Pearce, Brindle, Jones, Medlock, O'Neill, Percy and Poynter are the Company's Non-executive Directors. As Non-executive Directors they are responsible for: promoting entrepreneurial leadership and the highest standards of governance within a framework of prudent and effective controls; constructively challenging and helping develop strategic proposals; ensuring that the Group has in place the necessary resources to meet its strategic objectives; reviewing management performance; determining appropriate levels of Executive Director Remuneration (Remuneration Committee members), taking a prime role in appointing, and where necessary removing, Executive Directors; setting the Company's values and standards to ensure its obligations to its stakeholders are understood and met; and reviewing communication with shareholders.

Board evaluation and professional development

A comprehensive and rigorous external evaluation of the performance of the Board, its principal Committees and all Directors was conducted in the first quarter of 2012. Each Director was interviewed by an external evaluator to extract their views on the perceived operation and effectiveness of the Board, the Board Committees and individual Directors. The results of this process were presented to the Board in March 2012. All recommendations made by the external evaluator were accepted by the Board and the Board have committed to addressing all matters raised during 2012.

The Board also set themselves objectives early in 2011 and assessed their performance against these objectives at a meeting held in January 2012. At the same meeting Board objectives for 2012 were discussed and an agreed set of Board objectives for 2012 was approved at the end of January 2012.

The Company has a full and formal induction process for all new appointments to the Board. The Chairman, in consultation with the Company Secretary and individual Directors, is responsible for assessing the professional development needs of each Director. The induction process and ongoing professional development is facilitated by the Company Secretary who, in consultation with the individual Director, identifies the most appropriate method of ensuring professional development. The Company Secretary also assists in organising attendance at internal or external courses to develop familiarity with the Company's business operations.

Directors' conflicts of interest

From 1 October 2008, Directors have a statutory duty to avoid a situation in which they have or can have an interest that conflicts or possibly may conflict with the interests of the Company. A Director will not be in breach of that duty if the relevant matter has been authorised in accordance with the Articles of Association by the other Directors.

Directors and Directors' re-election

The Directors who served at any time during the year ended 31 December 2011 are as shown in the Directors' Remuneration Report on page 38. Details of the Executive Directors' service contracts and Non-executive Directors' letters of appointment can be found on page 38.

Keith Jones and Keith Percy joined the Board during the year as independent Directors and as such will retire at the Annual General Meeting and being eligible will offer themselves for election. With the exception of Alain Grisy, who has expressed his intention to retire on conclusion of the Annual General Meeting, all other Directors will, in accordance with the Code, offer themselves for re-election at the Annual General Meeting.

In accordance with the requirements of the Code, during 2011, the Nomination Committee gave more detailed consideration to the proposed re-election of Messrs Bedell-Pearce and Medlock, given that they have both served more than six years as Directors.

The Nomination Committee has reviewed the structure, size and composition of the Board, and has confirmed that all Directors submitting themselves for election and re-election demonstrate the commitment and devote sufficient time to perform their duties as members of the Board and should be elected or re-elected.

Details of the Directors offering themselves for election or re-election can be found on page 22.

Board succession planning

The Nomination Committee has a succession plan for the Board's Non-executive Directors. The plan was shaped by a skills profile, projected and expected normal retirements, and the Company's commitment to corporate governance best practice. The plan is approved annually by the Board.

Relations with shareholders

The Board as a whole acknowledges its responsibility for ensuring satisfactory dialogue with shareholders and that communications are given high priority. The Company welcomes the views of shareholders and, where practicable, enters into dialogue with institutional shareholders based on the need for mutual understanding of objectives. The Company's Chief Executive and Chief Financial Officer regularly meet the largest institutional shareholders and Company analysts following the announcement of the year-end and interim results; the Senior Independent Director and all other Non-executive Directors have the opportunity to attend these meetings. The Annual General Meeting of the Company

provides a forum, both formal and informal, for investors to meet and discuss issues with Directors and senior management of the Company.

At its Annual General Meeting, the Company complies with the provision of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of the Committee Chairmen. The results of the votes cast at the Annual General Meeting are posted on the Company's website.

Following the announcement of the first phase of the Company's Strategic Review, the Company's Executive Chairman and Chief Financial Officer met with a number of the Company's largest shareholders. The feedback from these meetings was circulated to the Board. Unattributable feedback from a number of the Company's shareholders, facilitated by the Company's brokers, is also presented to the Board following management's year-end results presentations.

Electronic communications

Copies of the 2011 Annual Report and Financial Statements, the Notice of Annual General Meeting, other corporate publications, press releases and announcements are available on the Company's website. Shareholders are encouraged to take advantage of the provisions allowing the Company to communicate electronically.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness on a regular basis. Management's role is to implement and operate the Board policies on risk and risk management. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The Company, as required by the FSA Listing Rules, complied with the Code provisions on internal control for the year ended 31 December 2011.

The procedures that the Directors have established are designed to provide effective control within the Group and accord with the Internal Control Guidance for Directors on the Code issued by the Institute of Chartered Accountants in England and Wales "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance). Such procedures have been in place throughout the year and up to 23 March 2012, the date of approval of the Annual Report and Financial Statements. A high-level overview of the ongoing process for identifying, evaluating and managing significant risks including social, environmental and ethical issues is detailed below. This process is regularly reviewed by the Board to ensure it complies with the Turnbull Guidance.

Control environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all areas of the business. The Group has in place appropriate procedures for the

reporting and resolution of activities that do not meet the required standards of business conduct.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives. The structure is designed to provide clear responsibilities and a control framework for key areas of the Group's business.

Operational responsibility rests with the Chief Executive and is devolved through a documented executive structure with clearly delegated and appropriate levels of authority. Members of Group Management are, therefore, accountable for the operation of the systems of internal controls within the Group's business.

Business risks

The identification of major business risks is carried out by the Board in conjunction with management and procedures to control these risks, where possible, are reviewed and agreed.

Quarterly reports are prepared by each area of the business, covering all key locations. These quarterly reports include issues of material business risk which are discussed in detail by the Group Management which includes both Executive Directors. All significant items identified are reported to the Board on a regular basis.

The key risks facing the Group at the year end and the mitigating actions assigned to these risks are detailed in the Business Review on page 13.

Monitoring and corrective action

The Company has a formal compliance function which, in addition to providing regulatory advice to the business, has undertaken compliance monitoring and performed a number of regulatory inspections in 2011. A separate Internal Audit department conducted regular monitoring of various business areas in line with a plan agreed annually with the Audit, Risk & Compliance Committee. Any issues of significance are brought to the attention of the Board by the Internal Audit, Risk & Compliance departments and through the regular reporting process. Planned corrective actions are independently monitored for timely completion and reviewed by the Audit, Risk & Compliance Committee.

The Audit, Risk & Compliance Committee reviews the effectiveness of the operation of the Risk, Compliance and Internal Audit departments at least twice each year.

Independence of the auditor

The Board has in place rigorous systems for ensuring the independence, objectivity and effectiveness of the Group's auditor and has satisfied itself that during the year no aspect of its work was impaired on these grounds. In maintaining a clear perception of independence and balancing that with the best interests of the Group, the Board has a clear policy that it follows when considering the award of non-audit work to the Group's auditor. The policy applied during 2011 is detailed below.

The Company does not impose an automatic ban on the Group's auditor undertaking non-audit work. The Group's aim is always to have any non-audit work involving accountancy firms carried out in a manner that affords value for money while taking into account relevant ethical guidance. The firm must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the Group.

The auditor of the Company is permitted to perform non-audit work in areas where, in the opinion of the Audit, Risk & Compliance Committee, it is appropriate for it to do so and there are no actual or perceived independence issues.

The Chairman of the Audit, Risk & Compliance Committee is authorised to approve the use of the auditor for non-audit work provided that the cost does not exceed £50,000 and the aggregate value does not exceed the audit fee for the financial year in question. In other circumstances, the approval of the Audit, Risk & Compliance Committee is required.

The performance, independence, competence and cost of the auditor are reviewed annually by the Audit, Risk & Compliance Committee. When the Committee considers it appropriate, the provision of audit services will be formally market-tested through a tender process involving those audit firms judged competent to meet the needs of the Group. The frequency of this market-testing will depend on the views of the Audit, Risk & Compliance Committee, on the needs of the Group and prevailing leading practice.

During the year a number of accountancy firms, all of whom are independent of KPMG, the external auditor, provided non-audit related services to the Group. Details of fees paid to these firms during 2011 are disclosed in note 4(c) on page 58 of the Consolidated Financial Statements.

Future developments

The Board believes that the controls in place during 2011 have been appropriate to the needs of the Group. Nevertheless, it is committed to the highest standards of governance and business conduct and will ensure that those controls continue to develop in line with the requirements of the FSA and leading practice.

By order of the Board,

W Marrack Tonkin, FCCA

Secretary
80 George Street
Edinburgh EH2 3BU

23 March 2012

Directors' Remuneration Report

Governance

In designing the total compensation arrangements for the Group and in preparing this report, the Board and the Remuneration Committee have complied with the provisions of the UK Corporate Governance Code (the Code), Part 15 of the Companies Act 2006, the Large and Medium sized Companies and Group (Accounts and Reports) Regulations 2008 and the FSA Listing Rules. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting.

Legislation requires the Group's auditor to audit certain disclosures within this report. Where disclosures have been audited they are indicated as such.

The following policies represent the policies now adopted by the Group for the forthcoming year and subsequent financial years.

The Committee has been established by the Board to:

- (a) recommend to the Board the Group's policy on Directors' remuneration;
- (b) ensure that the Executive Directors and senior employees are fairly rewarded and that a significant proportion of Executive Directors' remuneration is linked to the Group's corporate, and their individual, performance;
- (c) demonstrate to shareholders that the remuneration of Executive Directors and senior employees of the Group is determined by a committee of Board members which has no personal interest in the level of remuneration of the Group's Executive Directors or senior employees and who will pay due regard to the interests of shareholders and to the financial and commercial health of the Group; and
- (d) ensure that full consideration has been given to Section D and Schedule A of the Code's best practice provisions as annexed to the Listing Rules.

A Statement of the Remuneration Committee detailing membership of the Committee and the activities and work of the Committee is set out on page 30.

Research and advice

During the year the Group Chief Executive provided regular briefings to the Committee. The Committee also received advice from the Group Head of Human Resources.

The Remuneration Committee received advice from Kepler Associates during the year on general remuneration strategy, senior executive pay benchmarking and on the Company's LTRP. Kepler Associates was appointed by the Committee in 2007 as its independent adviser and provided no other services to the Company during the year.

During the year, the Remuneration Committee also received independent remuneration research undertaken by McLagan & Partners, Deloitte and PricewaterhouseCoopers, leading firms of executive remuneration consultants, to assess comparability of the Group's remuneration policies to the marketplace.

Statement of the policy on Directors' remuneration

The Company's compensation policy detailed below is based upon the following key principles:

- a) Remuneration policies, procedures and practices should be consistent with and promote sound and effective risk management. The Policy should not incentivise risk-taking that exceeds the approved risk appetite of F&C.
- b) The Remuneration Policy should be aligned with the business strategy, objectives, values and long-term interests of F&C.
- c) The quantum of total variable remuneration should not limit the ability of F&C to strengthen its capital base.
- d) Total variable remuneration should in general reflect the financial performance of the Group without jeopardising the ability to attract, retain and motivate the key talent required to achieve its goals.

In applying its policy the Group takes a total compensation approach with a strong emphasis on variable pay. The Board believes that shareholders' interests are best served by containing fixed costs and increasing the proportion of total compensation that is directly performance-related and thus aligned with shareholders' interests. Total remuneration will comprise basic salary, pension provision, annual bonus and any awards under the long term share incentive schemes.

The total cash component of compensation is benchmarked to market median for solid performers and to upper quartile for exceptional performers. A range of benchmark data is used, based on comparable asset management businesses, with appropriate data being used for each geographic location.

Policies on the individual elements of remuneration and employment

(a) Salaries

The salaries of all employees, including Executive Directors, are reviewed annually to ensure they remain appropriate and competitive. Increases to salaries may be made periodically although not annually. Salaries are determined by reference to relevant comparator Financial Services companies as reported by external market data providers. The Remuneration Committee also takes into account salary movements for staff across the Group when setting Executive Director salaries.

(b) Discretionary Cash Bonus

The size and allocation of the annual discretionary cash bonus pool is recommended by the Remuneration Committee to the Board for approval.

The recommendations of the Committee are determined by the:

- performance of the Group relative to pre-agreed targets;
- motivation and retention of key employees;
- practice of market competitors; and
- appropriate balance between fixed and variable pay.

Performance targets have been agreed by the Board and include Investment Performance, Fund Flows, Profitability and a range of other financial and corporate objectives.

All staff including Executive Directors are eligible for discretionary cash bonus awards which recognise individual achievement and contribution relative to agreed annual objectives.

A Purchased Equity Plan operates in conjunction with the discretionary bonus scheme and is intended to encourage shareholding by management and employees of the Group by providing for:

- the compulsory purchase of shares using annual bonus above a threshold level; and
- the voluntary purchase of shares using annual bonus, with associated matching shares.

Under the terms of the Purchased Equity Plan, participation can arise in two ways:

- on an annual basis, eligible employees who are awarded in a financial year an aggregate bonus in excess of a threshold level of £100,000 will be required to defer one third of the element exceeding £100,000 into shares (comprising a range of investment products managed by the Company or the Company's shares) (Compulsory Purchased Equity) for three years; and
- as and when determined by the Board, eligible employees may be invited to elect to defer into shares in the Company any remaining proportion of their gross cash bonus not subject to deferral on a compulsory basis for three years (subject to a minimum deferral of £1,500) (Voluntary Purchased Equity). To date, no voluntary purchased equity awards have been made.

The Compulsory Purchased Equity will not benefit from any form of matching award and is subject to forfeiture in the event that the employee leaves the Group for any reason (other than as a "good leaver") in the three-year retention period.

In 2011, the Board suspended the compulsory element of the Purchased Equity Plan in relation to bonuses paid for all staff.

During 2011 Compulsory Purchased Equity awards made to Alain Grisay and David Logan in 2008 vested. Their gains on vesting, representing the gross value of the shares and the cash equivalent of re-invested dividends thereon, were £688,000 and £183,000 respectively.

At 31 December 2011, 493,810 shares in the Company are held within the Purchased Equity Plan for Mr Grisay as a result of a Compulsory Purchased Equity award made in 2010.

(c) Savings-related share schemes

To foster a culture of share ownership throughout the Group, the Board operates a Share Save Scheme (Share Save) and a Share Incentive Plan (SIP) for all eligible employees. Both schemes are "all-employee share schemes" and all employees including Executive Directors who meet certain criteria are eligible to participate.

The SIP is a share scheme that enables employees to purchase F&C shares in a tax efficient manner on a monthly basis at the prevailing market price. The Share Save Scheme is a personal

savings scheme that enables employees to either purchase discounted F&C shares, the price of which is determined at the time of offering, at the end of a three-year or five-year saving period, or to receive the accumulated cash value, including accrued interest, on a tax-free basis.

At 31 December 2011, 274 employees (31 December 2010: 321 employees) participated in the SIP and 18 employees (31 December 2010: 42 employees) participated in the Share Save.

Shares under option within the Share Save at 31 December 2011 are detailed below:

	Number of options	Term (years)	Exercise price
April 2007 Participation	102,663	5	144.3 pence

At 31 December 2011, 783,944 shares (31 December 2010: 739,947 shares) were held in trust for employees within the SIP. Both "all-employee share schemes" seek to buy shares in the market to remove any possible impact of dilution.

(d) Share incentive schemes

The Board believes that the share incentive schemes increase the potential for greater importance to be placed upon the performance related element of total remuneration.

In any ten-year period, the aggregate number of Ordinary Shares which will be placed under award under any share incentive scheme, shall not, when aggregated with the number of Ordinary Shares placed under option or issued in that period under any other employees' share scheme operated by the Company, exceed 10 per cent. of the Company's issued ordinary share capital at that time. For the purposes of measurement against this limit the following will be disregarded: any Ordinary Shares that have been, or will be purchased, rather than allotted; any Ordinary Shares issued pursuant to the Thames River MRP and/or the MIP; and any awards or grants that have lapsed or become incapable of vesting.

In order to ensure that the assessment of performance conditions in relation to the share incentive schemes detailed below is independent, PricewaterhouseCoopers will report to the Remuneration Committee as to whether the performance criteria under all schemes have been met.

Policy on grants and awards under the share incentive schemes

The Company's policy for the granting of awards under the LTRP is that awards and grants are based on an assessment of individual contribution to the business and independent advice obtained on current remuneration practices. Award levels will be determined by the Remuneration Committee with reference to Group performance, market competitiveness (assessed on a total compensation basis using independent market total compensation data), and individual performance. Because of the active policy of reducing the emphasis on base salary, the Remuneration Committee will not link or limit any awards under the LTRP explicitly to a multiple of base salary, believing that making such a linkage provides an incentive to increase base salaries, and therefore fixed costs, which is contrary to shareholders' interests.

Any share incentive awards made to Executive Directors will be LTRP restricted awards.

The F&C Asset Management plc Long Term Remuneration Plan (LTRP)

The LTRP is the primary long term incentive arrangement of the Company.

The LTRP is a discretionary contingent share award scheme unapproved by HM Revenue and Customs. The LTRP is designed to support the business objectives of the Group.

Under the LTRP, contingent awards of shares are made under two categories:

Deferred awards

The Committee believes that it is to the benefit of shareholders that key employees have a long-term interest in the future performance of the Group. Equally the stability and retention of key employees is crucial to the continued success of the Group. To achieve this, Deferred awards may be made in Ordinary Shares the vesting of which is contingent on the continued employment of the relevant participant over the three-year deferral period.

This arrangement provides competitive Total Compensation and secures a high retention value combined with strong alignment to the interests of shareholders.

During the year, 15,437,379 deferred awards were made under the LTRP (2010: 17,355,585). Deferred awards were made to 217 staff during 2011 (2010: 201 staff).

The Executive Directors are not eligible to participate in deferred share awards under the rules of the LTRP.

Restricted awards

Vesting of the Ordinary Shares that are currently the subject of a restricted award under the LTRP will be contingent upon both the specified performance conditions and conditions of continued service.

The performance conditions applied to restricted awards under the LTRP are determined by the Board and are measured over a three-year period.

For the awards granted in 2010 and 2011 the following four performance measures were applied with equal weighting:

- Real Growth in Earnings per Share over 3 years: full vesting at RPI+11% p.a., 25% vesting at RPI+3% p.a.
- Total Shareholder Return relative to a peer group of FTSE250 Financial Companies: full vesting at upper quartile, 25% vesting at median
- Achievement of annual net new business targets as approved by the Board: full vesting for achievement of 125% of target, reducing on a straight line to nil vesting for achievement of 25% of target

- Relative investment performance compared to benchmarks: full vesting at 75% of revenue-weighted funds outperforming benchmark, reducing on a straight line to nil vesting for 42% of revenue-weighted funds outperforming benchmark

These measures were selected as at the time they were considered by the Committee to be the most relevant in capturing the critical elements of performance which reinforce value creation for shareholders.

In 2012 it is intended to make a one-off award of restricted shares to certain key staff, the performance conditions of which will be solely linked to the Company's underlying Earnings per share for the year ended 31st December 2015.

During the year a total of 2,815,730 restricted share awards were made under the LTRP to the Company's Executive Directors (2010: 3,786,486) and a further 933,954 restricted share awards were made to members of the senior management team (2010: Nil).

Achievement of performance conditions

During 2011, the growth in the Group's underlying EPS underperformed the growth in the RPI by 8.3 percentage points.

The Company's total shareholder return (TSR) ranked 8th out of a FTSE 250 Financial Companies Index comparator group of 15 companies in the period from 4 May 2010 to 31 December 2011 and 7th out of a FTSE 250 Financial Companies Index comparator group of 16 companies in the period from 4th May 2011 to 31 December 2011.

Information on the net new business and investment performance results of the Company is set out in the Business Review on pages 2 to 21.

Share price performance

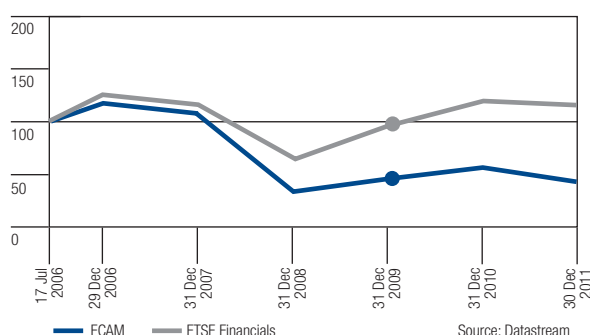
The share price at 31 December 2011 was 65.5 pence. During the year the highest price was 92.90 pence per share and the lowest price was 56.05 pence.

Performance graph for the share incentive schemes

The graph below compares the performance of the Company with a notional investment made up of shares of the group of companies from which the FTSE 250 Financial Companies Index of companies is calculated for the period from creation of the index in July 2006 to 31 December 2011. The graph is based on the TSR for each period (assuming all dividends are reinvested). The FTSE 250 Financial Companies Index has been chosen as the comparator index as it is the index that includes the Company and is considered the most appropriate benchmark as there are very few comparable listed asset management businesses.

TSR performance compared to FTSE 250 Financial Companies Index

For the five financial periods ending 31 December



(e) Policy on Pension and other benefits

F&C seeks to ensure that its pension policy is in line with its business strategy, objectives, values and long-term interests.

F&C has a number of pension plans which are designed to enable employees to make provision for a suitable income in retirement. In the majority of cases these are defined contribution plans. In the UK the defined benefit plan is closed to new members. Appropriate plans are also in place in non-UK locations.

Pension payments are based on basic salary and no other cash payments or benefits are pensionable.

In addition a range of competitive employee benefits are provided including vacation and insured benefits including death in service, private medical and income protection.

(f) Policy on contracts of employment

The Company's policy regarding contracts of employment is that all senior employees, including Executive Directors, should be offered rolling contracts of no longer than twelve months. Where it is commercially appropriate to protect the Company, a longer-term initial contract with any employee, including an Executive Director, may be agreed. On completion of the initial contract, the Company's standard terms will be applied. The Remuneration Committee, in considering contracts, has regard to compensation commitments in respect of termination and believes that these are best addressed by restricting the term of the contract.

(g) Policy on Non-executive Directors' remuneration

Non-executive Directors' fees for the year to 31 December 2011 are set out below. None of the Non-executive Directors has a service contract. Non-executive Directors must submit to re-election on an annual basis and are not eligible for bonuses or participation in savings related share schemes or share incentive schemes.

Non-executive Directors are not eligible to join any of the Company's pension schemes. No pension contributions are made on their behalf and no Non-executive Director receives a salary from the Company. The remuneration of Non-executive Directors is determined by the Board as a whole within the limits stipulated in the Company's Articles of Association. All fees are reviewed annually.

Apart from the Chairman and the Senior Independent Director, Non-executive Directors are paid a basic fee. In the year ended 31 December 2011 the Non-executive base fee was £40,000 per annum. In 2011 Non-executive Directors were separately remunerated for their services on Board Committees.

The Chairman of the Board, who chairs the Nomination Committee, receives an annual all-inclusive fee of £150,000 and the Senior Independent Director receives a £15,000 supplemental fee to the Non-executive base fee.

The Remuneration Committee sets the Chairman's annual remuneration. The Board as a whole determines the fees for Non-executive Directors, the Senior Independent director supplement and the additional fees payable for membership and chairing Board Committees. The supplemental member and Chairman's fees paid for Board Committees in 2011 are set out below.

	Committee Member's fee (£)	Chairman's fee (payable in addition to the member's) (£)
Audit, Risk & Compliance	10,000	10,000
Remuneration	7,500	10,000
Nomination	5,000	10,000*
Thames River Advisory Councils	20,000	Nil

* Currently included within the all-inclusive fees payable to Edward Bramson.

With effect from the 1st January 2012, the Board increased the Non-executive base fee to £60,000 per annum, resolved to remove the additional remuneration paid for serving as a member on the Audit, Risk and Compliance, Remuneration and Nomination Committees and increased the fee payable for chairing the Audit, Risk and Compliance, Remuneration and Nomination Committees to £12,500 per annum.

Statement on Executive Directors' service contracts and Non-executive Directors' letters of appointment

Messrs Grisay and Logan have current service contracts with the Company that are for a rolling period of one year, details of which are summarised below. No employee of the Group has a service contract that cannot be brought to an end within one year.

Executive Directors	Date of contract	Notice period	Unexpired term	Provisions for compensation payable by the Company on early termination £000
Alain Grisay	11 Oct 2004	Twelve months	six months	361
David Logan	31 July 2006	Twelve months	rolling twelve months	277

Chairman and Non-executive Directors	Date of contract	Notice period	Provisions for compensation payable by the Company on early termination £000
Edward Bramson*	3 February 2011	One month	Nil
Keith Bedell-Pearce	7 May 2009	One month	Nil
Ian Brindle*	3 February 2011	One month	Nil
Keith Jones*	24 November 2011	One month	Nil
Jeff Medlock	13 May 2008	One month	Nil
Derham O'Neill*	3 February 2011	One month	Nil
Keith Percy*	23 November 2011	One month	Nil
Kieran Poynter	4 May 2010	One month	Nil

* Appointed during 2011.

Statement on Directors' Remuneration (audited)

The remuneration of the Executive Chairman and the other Directors who held office during the year ended 31 December 2011 is set out in the table below:

	Salary and fees 2011 £000	Bonus 2011 £000	Benefits and allowances 2011 £000	Total 2011 (excluding pension contribution) £000	Total 2010 (excluding pension contribution) £000	Pension Contributions 2011 £000	Total 2011 £000	Total 2010 £000
Executive Directors								
Alain Grisay	350	800	11	1,161	1,147	22	1,183	1,168
David Logan	275	300	2	577	585	40	617	623
Executive Chairman and Non-executive Directors								
Edward Bramson (Executive Chairman) ⁽¹⁾	136	–	–	136	–	–	136	–
Nick MacAndrew ⁽²⁾	14	–	–	14	150	–	14	150
Keith Bedell-Pearce*	114	–	–	114	95	–	114	95
Ian Brindle ⁽¹⁾	36	–	–	36	–	–	36	–
Keith Jones ⁽³⁾	4	–	–	4	–	–	4	–
Brian Larcombe ⁽²⁾	7	–	–	7	73	–	7	73
Jeff Medlock	55	–	–	55	40	–	55	40
Derham O'Neill ⁽¹⁾	51	–	–	51	–	–	51	–
Keith Percy ⁽³⁾	4	–	–	4	–	–	4	–
Gerrhard Roggemann ⁽⁴⁾	21	–	–	21	62	–	21	62
Kieran Poynter*	97	–	–	97	57	–	97	57
Total	1,164	1,100	13	2,277	2,209	62	2,339	2,268

* Appointed as a member of the TRC Advisory Councils on 1 September 2010.

¹ Appointed to the Board in February 2011

² Removed from the Board in February 2011

³ Appointed to the Board in November 2011

⁴ Retired from the Board in May 2011

Edward Bramson's fees are paid to Sherborne. No other sums were paid to third parties in respect of any Director's services.

The Company received £nil (2010: £nil) in fees payable to Executive Directors in respect of any external directorships held. No Executive Director receives any fees in respect of external appointments.

Statement on Directors' pensions (audited)

The number of Directors who held office during the year and to whom retirement benefits are accruing is set out below:

	2011 Number	2010 Number
Members of money purchase pension scheme	2	2
<hr/>		
	2011 £000	2010 £000
Company contributions paid to money purchase pension schemes:		
Alain Grisay	22	21
David Logan	40	38

During the year, the Company paid a widow's pension of £102,000 (2010: £100,000) in respect of the pension benefits which had accrued to a former Chairman and £116,000 (2010: £nil) to Mr Jenkins, a former Chairman of the Company.

No Directors were members of a defined benefit scheme during the year.

Statement on Directors' Share Incentive Schemes (audited)

The Executive Directors who held office during the year and their awards under any of the Group's share incentive schemes at 31 December 2011 are shown below.

Non-executive Directors do not participate in any of the Group's long term incentive plans.

Executive Director Remuneration Plan (audited)

Details of the Executive Director Remuneration Plan are set out on pages 93 to 94.

Date of Grant	Nature of Award	Alain Grisay	David Logan	Share price at date of award	Share price at date of vesting	Gain on vesting*	Gain on vesting*
						£000	£000
25 Mar 2008	Deferred	740,740	284,900	192.5p	–		
8 Jul 2009	Deferred	1,649,452	539,540	64.9p	–		
Opening position at 1 January 2011		2,390,192	824,440	–	–		
Deferred awards that vested during the year		(740,740)	(284,900)	192.5p	78.8p	722	278
Deferred awards that lapsed during the year		–	–	–	–		
Deferred awards remaining at 31 December 2011		1,649,452	539,540	–	–		

* The gain on vesting represents the gross value of shares and the cash equivalent of re-invested dividends thereon transferred on vesting.

Long Term Remuneration Plan awards (audited)

Details of the Long Term Remuneration Plan are set out on page 36.

Date of Grant	Nature of Award	Alain Grisay	David Logan	Share price at date of award
4 May 2010	Restricted	2,795,929	990,557	64.8p
4 May 2011	Restricted	1,978,729	837,001	77.8p

No restricted awards made to Mr Grisay or Mr Logan vested or lapsed during the year.

Share options (audited)

Details of the share option schemes are set out on page 98. As at 31 December 2011, there are no share options outstanding for any Director.

By order of the Board,

W Marrack Tonkin, FCCA

Secretary
80 George Street
Edinburgh EH2 3BU

23 March 2012

Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Consolidated and Company Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Consolidated and Company Financial Statements for each financial year. Under that law they are required to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law and have elected to prepare the Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period. In preparing each of the Consolidated and Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Consolidated Financial Statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Company Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Responsibility Statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's Statement, Chief Executive's Report and Business Review include a fair review of the development and performance of the business and the position of the issuer and the undertakings in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



Edward Bramson

Chairman

23 March 2012

Independent Auditor's Report

to the members of F&C Asset Management plc

We have audited the financial statements of F&C Asset Management plc for the year ended 31 December 2011 set out on pages 42 to 122 and 126 to 140.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 27 to 33 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

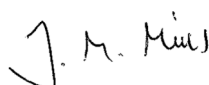
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 27, in relation to going concern;
- the part of the Corporate Governance Statement on page 27 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.



JM Mills (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Edinburgh

23 March 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Revenue			
Investment management fees	2	279.0	258.2
Other income	2	4.2	1.6
Total revenue	2	283.2	259.8
Fee and commission expenses	2	(16.2)	(16.6)
Net revenue	2	267.0	243.2
Net gains and investment income on unit-linked assets	3	13.7	74.3
Movement in fair value of unit-linked liabilities		(13.4)	(73.3)
Operating expenses			
Operating expenses	4(b)	(183.8)	(169.7)
Distributions to members of LLPs	5	(18.3)	(6.0)
Amortisation of intangible assets – management contracts	13	(45.8)	(50.7)
Other exceptional net operating expenses	6(a)	(19.0)	(20.9)
Total operating expenses	4(a)	(266.9)	(247.3)
Operating profit/(loss)		0.4	(3.1)
Finance revenue	7	17.2	11.1
Finance costs	8	(35.4)	(33.6)
F&C REIT put option fair value gain	6(b)	8.7	6.4
TRC acquisition consideration adjustments	6(c)	7.6	—
Loss before tax		(1.5)	(19.2)
Tax – Shareholders		4.1	6.2
Tax – Policyholders		—	(0.4)
Tax income	9	4.1	5.8
Profit/(loss) for the year		2.6	(13.4)
Attributable to:			
Equity holders of the parent		(0.5)	(16.6)
Non-controlling interests		3.1	3.2
Profit/(loss) for the year		2.6	(13.4)
Basic loss per Ordinary Share	10	(0.10)p	(3.31)p
Diluted loss per Ordinary Share	10	(0.10)p	(3.31)p
		£m	£m
Memo – dividends paid	11	15.6	24.5
Memo – dividends proposed	11	10.4	10.3

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

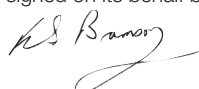
	Notes	2011 £m	2010 £m
Profit/(loss) for the year		2.6	(13.4)
Other comprehensive (expense)/income:			
Foreign exchange movements on translation of foreign operations		(2.0)	(4.7)
Net actuarial gains on defined benefit pension schemes	25(d)	3.3	10.4
Gains on available for sale financial investments	14	1.5	1.3
Realised gains on available for sale financial investments transferred to the Income Statement	14	(3.3)	–
Tax expense on items taken directly to equity	9	(0.5)	(3.5)
Foreign exchange transfer to Income Statement on liquidation of subsidiary		–	(1.3)
Other comprehensive (expense)/income for the year		(1.0)	2.2
Total comprehensive income/(expense) for the year		1.6	(11.2)
Total comprehensive income/(expense) attributable to:			
Equity holders of the parent		(1.5)	(14.4)
Non-controlling interests		3.1	3.2
		1.6	(11.2)

Consolidated Statement of Financial Position

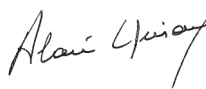
as at 31 December 2011

	Notes	31 December 2011 £m	31 December 2010 £m
Assets			
Non-current assets			
Property, plant and equipment	12	7.4	8.3
Intangible assets:			
– Goodwill	13	611.9	611.9
– Management contracts	13	128.6	175.5
– Software and licences	13	2.5	1.0
	13	743.0	788.4
Financial investments	14	1.7	3.5
Other receivables	20	1.1	2.0
Deferred acquisition costs	16	4.7	6.0
Deferred tax assets	17(a)	28.3	30.9
Total non-current assets		786.2	839.1
Current assets			
Financial investments	18(a)(i)	454.4	548.7
Reinsurance assets	19	2.0	2.0
Stock of units and shares	18(a)(ii)	0.9	0.1
Deferred acquisition costs	16	2.4	2.8
Trade and other receivables	20	83.9	162.6
Current tax receivable		0.7	0.1
Cash and cash equivalents:			
– Shareholders	21	196.9	178.8
– Policyholders	21	28.1	23.4
	21	225.0	202.2
Total current assets		769.3	918.5
Total assets		1,555.5	1,757.6
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	22	273.8	273.7
Other payables	23	6.9	12.1
Provisions	24	7.3	8.1
Pension deficit	25(d)	20.5	27.6
Employee benefits		5.9	11.6
Deferred income	27	7.0	8.1
Other financial liabilities	28	41.5	49.5
Deferred tax liabilities	17(a)	32.4	48.1
Total non-current liabilities		395.3	438.8
Current liabilities			
Investment contract liabilities	29	472.8	559.2
Insurance contract liabilities	30	2.0	2.0
Trade and other payables	23	71.7	138.5
Provisions	24	8.5	9.0
Employee benefits		28.8	24.3
Liabilities to members of LLPs		4.7	4.4
Deferred income	27	3.3	3.7
Other financial liabilities	28	3.8	4.5
Current tax payable		7.8	1.6
Total current liabilities		603.4	747.2
Total liabilities		998.7	1,186.0
Equity			
Ordinary Share capital	31	0.5	0.5
Share premium account	32	51.8	51.8
Capital redemption reserve	32	0.8	0.8
Merger reserve	32	359.7	383.3
Other reserves	32	(22.8)	(19.5)
Retained earnings	32	154.3	138.2
Total equity attributable to equity holders of the parent		544.3	555.1
Non-controlling interests	32	12.5	16.5
Total equity		556.8	571.6
Total liabilities and equity		1,555.5	1,757.6

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 23 March 2012. They were signed on its behalf by:



Edward Bramson
Executive Chairman



Alain Grisay
Chief Executive

The accompanying notes to the Consolidated Financial Statements form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Ordinary Share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Foreign currency translation reserve £m	Fair value reserve £m	Acquisition reserve £m	Retained earnings £m	Non- controlling interests £m	Total equity £m
Balance at 1 January 2010	0.5	33.8	0.8	416.6	50.1	1.4	(66.0)	132.5	19.2	588.9
(Loss)/profit for the year	-	-	-	-	-	-	-	(16.6)	3.2	(13.4)
Other comprehensive (expense)/income	-	-	-	-	(6.0)	1.0	-	7.2	-	2.2
Total comprehensive (expense)/income	-	-	-	-	(6.0)	1.0	-	(9.4)	3.2	(11.2)
Transactions with owners:										
Realised element of merger reserve to offset amortisation of intangible assets	-	-	-	(33.3)	-	-	-	33.3	-	-
Transfer of investment in own shares into equity on acquisition of TRC	-	-	-	-	-	-	-	(0.8)	-	(0.8)
Purchase of own shares	-	-	-	-	-	-	-	(9.7)	-	(9.7)
Settlement proceeds received on disposal of own shares	-	-	-	-	-	-	-	1.1	-	1.1
Share-based payment charges credited to equity	-	-	-	-	-	-	-	19.5	-	19.5
Share capital allotted on placement of shares	-	14.2	-	-	-	-	-	-	-	14.2
Share capital allotted in respect of TRC Commutation arrangements	-	3.8	-	-	-	-	-	(3.8)	-	-
Final 2009 dividend paid	-	-	-	-	-	-	-	(19.4)	-	(19.4)
Interim 2010 dividend paid	-	-	-	-	-	-	-	(5.1)	-	(5.1)
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	(5.9)	(5.9)
Balance at 31 December 2010	0.5	51.8	0.8	383.3	44.1	2.4	(66.0)	138.2	16.5	571.6
(Loss)/profit for the year	-	-	-	-	-	-	-	(0.5)	3.1	2.6
Other comprehensive (expense)/income	-	-	-	-	(2.0)	(1.3)	-	2.3	-	(1.0)
Total comprehensive (expense)/income	-	-	-	-	(2.0)	(1.3)	-	1.8	3.1	1.6
Transactions with owners:										
Realised element of merger reserve to offset amortisation of intangible assets	-	-	-	(23.6)	-	-	-	23.6	-	-
Purchase of own shares	-	-	-	-	-	-	-	(3.2)	-	(3.2)
Share-based payment charges credited to equity	-	-	-	-	-	-	-	17.3	-	17.3
Consideration for non-controlling interests in F&C Partners LLP	-	-	-	-	-	-	-	(10.7)	-	(10.7)
Tax credit associated with purchase of non-controlling interests in F&C Partners LLP	-	-	-	-	-	-	-	2.9	-	2.9
Final 2010 dividend paid	-	-	-	-	-	-	-	(10.4)	-	(10.4)
Interim 2011 dividend paid	-	-	-	-	-	-	-	(5.2)	-	(5.2)
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	(7.1)	(7.1)
Balance at 31 December 2011	0.5	51.8	0.8	359.7	42.1	1.1	(66.0)	154.3	12.5	556.8

The total of foreign currency translation reserve, fair value reserve and acquisition reserve constitutes 'Other reserves' as disclosed in the Consolidated Statement of Financial Position and amounts to a debit of £22.8m at 31 December 2011 (31 December 2010: £19.5m debit).

Cumulative defined benefit pension scheme actuarial losses (as disclosed in note 25(d)) recognised as at 31 December 2011 are £31.0m which are included in retained earnings (31 December 2010: £34.3m).

The share premium recognised during 2010 is stated net of £0.4m of transaction expenses associated with the related share placing.

The accompanying notes to the Consolidated Financial Statements form an integral part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Operating profit/(loss)		0.4	(3.1)
Cash outflow relating to restructuring costs*		–	(3.9)
Adjustments for non-cash items	33(a)	67.2	72.8
Changes in working capital and provisions	33(a)	18.3	(26.3)
Cash inflows from operating activities[†]		85.9	39.5
Income tax paid		(0.7)	(4.8)
Net cash inflow from operating activities		85.2	34.7
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3.0)	(1.1)
Proceeds from disposal of property, plant and equipment		0.1	0.1
Purchase of software and licences		(2.2)	(0.7)
Payments to acquire investments		(0.6)	(1.2)
Proceeds from disposal of investments		3.7	3.0
Investment income – interest and dividends		5.9	1.1
Consideration payment for the acquisition of TRC		(7.4)	(33.6)
Fair value of cash acquired with the acquisition of TRC		–	27.2
Expenses of acquisitions [#]		–	(0.1)
Net cash outflow from investing activities		(3.5)	(5.3)
Cash flows from financing activities			
Payment for change in ownership interest in F&C Partners LLP		(8.8)	–
Interest paid on Loan Notes		(21.9)	(20.8)
Other interest paid		(0.4)	(0.2)
Equity dividends paid	11	(15.6)	(24.5)
Distributions to non-controlling interests		(7.1)	(5.9)
Proceeds from issue of share capital		–	14.2
Purchases of own shares		(3.2)	(9.7)
Proceeds of disposal of own shares		–	1.1
Drawdown of acquisition loan facility		–	15.0
Repayment of acquisition loan facility		–	(15.0)
Proceeds from issue of Guaranteed Loan Notes 2016		–	20.0
Repayment of Floating Rate Secured Notes 2010		–	(10.0)
Expenses in respect of debt arrangements		–	(1.6)
Net cash outflow from financing activities		(57.0)	(37.4)
Net increase/(decrease) in cash and cash equivalents		24.7	(8.0)
Effect of exchange rate fluctuations on cash held		(1.9)	(3.7)
Cash and cash equivalents at 1 January		202.2	213.9
Cash and cash equivalents at 31 December	21	225.0	202.2
Cash and cash equivalents			
Shareholders	21	196.9	178.8
Policyholders	21	28.1	23.4
	21	225.0	202.2

* Cash payment in respect of restructuring costs recognised on previous acquisitions.

[†] Cash inflows from operating activities includes investments and disinvestments relating to unit-linked assets attributable to policyholders in the Group's insurance company. These activities can result in significant fluctuations in "cash flows from operating activities".

[#] Cash flows relating to acquisitions before 1 January 2010.

Non-cash transactions

During 2010, a total of 6,085,996 Ordinary Shares were issued during the year in respect of TRC Initial and Deferred Commutation consideration. The fair value of these shares was £3.8m.

Accounting Policies

Basis of preparation and statement of compliance

These are the Consolidated Financial Statements of F&C Asset Management plc and its subsidiaries (the Group) which have been prepared on a going concern basis and in accordance with International Financial Reporting Standards, as adopted by the European Union (adopted IFRS), and those parts of the Companies Act 2006 applicable to companies reporting under adopted IFRS. These Consolidated Financial Statements are presented in millions of pounds Sterling, rounded to one decimal point, except where otherwise indicated.

Certain figures reported in the 2010 Financial Statements have been reclassified within these Financial Statements for consistency with the presentation applied within these Financial Statements. These changes are presentational in nature and do not change the previously reported financial results for the year ended 31 December 2010 nor the aggregate assets and liabilities at that date.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 21. The financial position of the Group, its cash flows and liquidity position are also described in the Business Review. In addition, note 36 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of clients across different geographic areas and industries. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Financial Statements.

New or revised standards

The Group has adopted the following new or revised standards and interpretations as of 1 January 2011:

The amendments to the standards and interpretations below did not have any impact on the accounting policies, financial position or performance of the Group:

Amendments to IFRS:

IAS 32	Financial Instruments: Presentation: Amendments relating to classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures
IAS 24	Related Party Disclosures: Revised definition of related parties

IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction: Prepayments of a Minimum Funding Requirement
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2010 Improvements to IFRS (issued May 2010):

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 27	Consolidated and Separate Financial Statements
IAS 23	Interim Financial Reporting

Parent Company Financial Statements

The parent Company has continued to present individual Financial Statements prepared on a UK GAAP basis as permitted by section 395(1) of the Companies Act 2006, adopting the exemption of omitting the Profit and Loss Account and related notes conferred by section 408 of that Act. The Company Financial Statements, together with their respective accounting policies and notes, are presented on pages 126 to 140.

Accounting estimates, assumptions and judgements

The preparation of the Financial Statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date as well as the reported income and expenses for the year. While estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from these estimates.

The key sources of estimation, uncertainty and critical judgements in applying accounting policies are disclosed, where appropriate, in the following notes to the Consolidated Financial Statements:

(a) Impairment testing of intangible assets

The projected revenue growth, projected operating cost growth and discount rates applied to cash flow projections, as disclosed in note 13.

(b) Pension assumptions

The mortality assumptions, expected rates of return, discount rates, rates of salary increases and inflation increases, as disclosed in note 25.

(c) Non-controlling interest (NCI) put options

The fair value of the F&C REIT NCI put options is subject to uncertainties in respect of future performance and other factors impacting the valuation of the F&C REIT Group. Details of these put options are disclosed in note 28.

(d) Provisions

Onerous contract provisions for premises are subject to uncertainties over time, including market rent reviews and break options within the lease arrangements. The final settlement in respect of the F&C Partners litigation is subject to determination by an appeal process. While there are a number of possible financial outcomes, the Directors have recognised a provision in respect of the amount which could be payable. Details of provisions are disclosed within note 24.

(e) Share-based payments

The share-based payment expense in respect of the TRC Commutation arrangements, as detailed in notes 15(a) and 26(g), is dependent upon whether the underlying put and call options are exercised and, if exercised, the expense will vary according to a number of factors, including the level of earnings of the respective Investment Teams and the latest audited financial results of the F&C Group.

The final F&C REIT variable NCI share-based payment expense will depend on the extent of the F&C REIT financial results over the remainder of the performance periods and, if the performance criteria are achieved, the value of F&C REIT business at the vesting date. Details are given in note 26(c).

(f) Deferred tax assets

The quantum of deferred tax assets recognised, as detailed in note 17, is based upon assumptions as to the future profitability of the underlying companies to which they relate.

(g) TRC contingent consideration

The conditional consideration payable in respect of the acquisition of TRC has been estimated as nil, but is dependent upon the level of future earnings of the TRC Group at 30 June 2012, as detailed in note 15(a).

Summary of significant accounting policies

The accounting policies set out below have been applied consistently throughout the Group for the purposes of the Consolidated Financial Statements for the years ended 31 December 2011 and 31 December 2010, aside from any new or revised standards applicable for the first time in the current year.

(a) Consolidation*(i) Subsidiaries*

Subsidiaries are entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries follow accounting policies consistent with those of the Group, unless there is a requirement for the subsidiary to follow a different accounting treatment, in which case, consolidation adjustments are made to align the treatment of such subsidiaries within the Consolidated Financial Statements. The subsidiaries all have coterminous reporting periods, with three exceptions.

The Consolidated Financial Statements incorporate the assets, liabilities, results and cash flows of the Company and its subsidiaries. The results of subsidiaries acquired or sold during the period are included in the consolidated results from the date

of acquisition or up to the date of disposal. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

NCI represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the Consolidated Income Statement (Income Statement) and within equity in the Consolidated Statement of Financial Position (Statement of Financial Position), separately from parent shareholders' equity.

*(ii) Business combinations**IFRS 3 (Revised) (relating to Business Combinations from 1 January 2010)*

A business combination is the bringing together of separate entities or businesses into one reporting entity. The result is that one entity, the acquirer, obtains control of one or more entities or businesses. The acquisition date is the date on which the acquirer obtains control of the acquiree.

The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred for the acquisition, plus any NCI, over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. Acquisition-related expenses are expensed in the Income Statement.

(b) Foreign currencies

The Group's presentational currency is Sterling. Each entity in the Group determines its own functional currency and amounts included in the financial statements of each entity are measured in that functional currency.

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rate ruling at the reporting date, and any exchange differences arising are taken to the Income Statement.

Non-monetary assets and liabilities, other than intangible assets arising on the acquisition of foreign operations (measured at historical cost in a foreign currency), are translated using the exchange rate at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate at the date the fair value was determined. When fair value movements in assets and liabilities are reflected in the Income Statement, the corresponding exchange movements are also recognised in the Income Statement. Similarly, when fair value movements in assets and liabilities are reflected directly in equity, the corresponding exchange movements (except any relating to available for sale monetary assets) are also recognised directly in equity.

(ii) Foreign operations

The functional currency of foreign operations is predominantly the Euro.

The assets and liabilities of, or relating to, foreign operations are translated into Sterling at foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to Sterling at foreign exchange rates approximating to the rates ruling at the dates of the transactions. Foreign exchange differences arising on translation of foreign operations into Sterling, including related intangible assets, are recognised directly in the Group's Foreign Currency Translation Reserve (FCTR), which is a separate component of equity, and reported in the Statement of Comprehensive Income. These exchange differences are recognised as income or expenses in the period in which the foreign operations are disposed of.

(c) Revenue recognition

Management fees, investment advisory fees and other revenue generated from the Group's asset management activities are recognised in the Income Statement over the period which these investment management services are provided.

Initial fees received in advance, arising on open-ended funds, are taken to the Statement of Financial Position and amortised over the period of the asset management service. The Group enters into standard contractual terms for all investors. Therefore, the period of provision of asset management services is estimated based upon the Group's experience of the average holding periods of investors. The average holding period is reassessed on an annual basis.

The Group is entitled to earn performance fees from a number of clients if the actual investment performance of clients' assets exceeds defined benchmarks by an agreed level of outperformance, generally in a set time period. Performance fees are recognised when the quantum of the fee can be estimated reliably, which is when the performance period ends, when this occurs on or before the reporting date, or where there is a period of less than six months remaining to the end of the performance period and there is evidence at the reporting date which suggests that the current performance will be sustainable.

(d) Leases

All leases entered into by the Group are operating leases, being leases where the lessor retains substantially all the risks and rewards of ownership of the leased asset. Rentals paid under operating leases are charged to the Income Statement on a straight-line basis over the lease term. Lease incentives are recognised by the Group as a reduction in the rental expense, allocated on a straight-line basis over the lease term. Accounting policy "(s) Provisions" discusses the recognition of provisions on onerous property leases when the leased space has ceased to be occupied by the Group.

(e) Fee and commission expenses

Fee and commission expenses comprise two main elements – costs associated with gaining new asset management contracts and subsequent commission paid to agents. The costs

associated with gaining contracts are deferred and amortised over the estimated term of the contracts (in line with the treatment of the associated initial fees received), while the subsequent renewal commission paid to agents is expensed as the services are provided.

(f) Exceptional income and costs

Where the Group incurs significant non-recurring expenditure or earns significant non-recurring income in respect of items that arise outwith the Group's normal business activities and which are sufficiently material to warrant separate disclosure, then such items are disclosed in the Income Statement as exceptional items, either separately or collectively, depending on their nature.

(g) Finance revenue

Finance revenue comprises interest, dividends, investment income, expected return on pension assets and net fair value gains through the Income Statement in respect of shareholder investments. Dividend income is recognised when the right to receive payment is established. Interest income is recognised in the Income Statement on an effective interest rate basis as it accrues.

(h) Finance costs

Finance costs comprise interest payable on borrowings, interest on pension liabilities, amortisation of loan issue costs, unwinding of discount on provisions and net fair value losses through the Income Statement in respect of shareholder investments. Borrowing costs are recognised in the Income Statement on an effective interest rate basis.

(i) Income taxes

The income tax expense or income disclosed on the face of the Income Statement represents the aggregate of current tax and the movement in deferred tax. Income tax is recognised in the Income Statement for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in equity. In such cases the gain or loss shown in equity is stated separately from the attributable income tax, which is also recognised directly in equity.

Current tax is the expected tax payable to, or receivable from, the taxation authorities on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Statements and the corresponding tax basis used in the computation of taxable profit or loss, accounted for using the reporting date liability method.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and laws enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised, except:

- where the deferred tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss; or
- in respect of taxable or deductible temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Any income tax expense or income in respect of taxable gains or losses attributable to policyholders falls to be borne by or to the benefit of the Group's unit-linked policyholders. As a result, the Directors consider it appropriate to differentiate on the face of the Income Statement between tax attributable to policyholders and that attributable to shareholders.

(j) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on property, plant and equipment is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Income Statement as an expense as incurred.

Property, plant and equipment is depreciated so as to write off the cost of assets, using the straight-line method, over their estimated useful lives, as follows:

Leasehold improvements	– over 10 years
Computer equipment	– over 3 years
Office furniture & equipment	– over 3-5 years
Motor vehicles	– over 3-4 years

Depreciation is recognised as an expense in the Income Statement.

The carrying value of assets and their useful lives are reviewed at each reporting date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the Income Statement in the period in which it arises.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the fair value less costs to sell) is included in the Income Statement in the year the asset is derecognised.

(k) Intangible assets

(i) Goodwill

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Business combinations arising after 31 December 2009 are accounted for under IFRS 3 (Revised): Business Combinations. Where the initial amount of goodwill can only be determined on a provisional basis at the end of the financial reporting period, adjustments are made to the amount of goodwill up to twelve months from the date of acquisition to the extent that they relate to revisions to the quantum of net assets acquired.

Any adjustment to the initial consideration, including amounts which are conditional upon performance criteria, are recognised in the Income Statement in the period in which the subsequent change arises.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) Investment management contracts

Intangible assets acquired separately are measured on initial recognition at cost. The measurement of intangible assets acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at initial fair value less accumulated amortisation and any accumulated impairment losses.

The useful lives of investment management contracts are finite and such contracts are amortised on a straight-line basis over their estimated useful lives or average contractual term, with amortisation being charged to the Income Statement. The amortisation period is reviewed at each financial year end. Details of estimated useful lives are shown in note 13.

(iii) Software and licences

Separately purchased intangible assets have a finite life and are shown at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the Income Statement in equal annual instalments, based on the following useful economic lives:

Software	– 3 years
Licences	– over the contractual term (3-5 years)

Subsequent expenditure on capitalised intangible assets is expensed as incurred.

(l) Impairment of intangible assets

At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying

amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Any impairment arising is recognised in the Income Statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to a cash-generating unit that is expected to benefit from the synergies of the combination. Each unit to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Where intangible assets form part of a cash-generating unit and part of the operation within that unit is disposed of, the intangible assets associated with the operation disposed of are included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

(m) Financial instruments

Financial instruments are recognised initially at fair value, plus directly attributable transaction costs, in the case of investments not at fair value through profit or loss.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices (mid price for OEICs) at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using: recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; or discounted cash flow analysis and option pricing models.

Financial instruments are classified into the categories described below:

- (i) *Financial instruments at fair value through profit or loss* include investments that are held for trading purposes or that have been specifically designated as 'at fair value through profit or loss'. They are carried in the Statement of Financial Position at fair value and movements in fair value are taken to the Income Statement in the period in which they arise. Interest and dividend income on these financial instruments is recognised separately in Finance revenue.

The Group has adopted "trade date" accounting for purchases or sales of financial assets under a contract whose terms require delivery of the asset within the time frame established in the marketplace concerned.

Accordingly, such financial instruments are recognised on the date the Group commits to the purchase of the investments, and are derecognised on the date it commits to their sale.

The Group has adopted the Fair Value Option in IAS 39, which enables the liabilities in respect of the Group's unit-linked investment contracts to be matched to the fair value of the related assets which are solely attributable to the investment contract policyholders, thus reflecting the contractual entitlement of the policyholders. Differences in fair values are taken to the Income Statement.

- (ii) *Available for sale financial assets* are also carried at fair value in the Statement of Financial Position. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines. Where insufficient information exists to produce a valuation then the price of recent investments is used. Such techniques include using: recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; or discounted cash flow analysis and option pricing models.

For unquoted investments in early stage enterprises and enterprises with revenues but without significant profits or significant positive cash flows, fair value is determined using the "Price of a Recent Investment" method. Repayments are treated as reductions to carrying value. After an appropriate period, an assessment is made as to whether the circumstances of the investment have changed such that another valuation methodology is appropriate, and whether there is any evidence of deterioration or strong defensible evidence of an increase in value. In the absence of these indicators, fair value is determined to be that reported at the previous reporting date.

Unquoted investments with revenues, maintainable profits and/or maintainable cash flows are valued by deriving an Enterprise Value of the underlying business.

Movements in fair value, other than impairment losses and foreign exchange movements on monetary assets, are taken to the fair value reserve in equity until derecognition of the asset, at which time the cumulative amount in this reserve is recognised in the Income Statement.

- (iii) *Loans and receivables* are measured on initial recognition at fair value plus any directly attributable transaction costs incurred. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when loans and receivables are derecognised or impaired, as well as through the amortisation process.
- (iv) *Other financial liabilities* include the NCI put options which are recognised at fair value through profit or loss.

The NCI put options, over equity in majority-owned subsidiaries, are recognised at fair value at the reporting date. Upon initial recognition the fair value of the put option is debited to equity. Subsequent movements to the fair value are reflected in the Income Statement. Fair value is the amount at which a derivative could be exchanged in a transaction at the reporting date between willing parties.

The remaining financial liabilities are recognised at amortised cost using the effective interest rate after initial recognition.

Expenses incurred in respect of raising capital on interest bearing loans and borrowings are amortised over the term of the loan on an effective interest rate basis. These expenses are offset against the loan amount.

Derecognition of financial assets and liabilities*Financial assets*

A financial asset or, where applicable, a part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Income Statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Income Statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available for sale financial assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the Income Statement, is transferred from equity to the Income Statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the Income Statement. Reversals of impairment losses on debt instruments are taken through the Income Statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the Income Statement.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held at call with banks and other short-term, highly liquid investments in money market instruments with original maturity dates of three months or less.

(o) Investment contracts

The Group sells unit-linked pension investment contracts through its insurance entity, F&C Managed Pension Funds Limited (MPF). These unit-linked contracts involve both the transfer of a financial instrument and the provision of investment management services. The financial instrument component is classified as a financial liability at fair value through profit or loss. The financial liability is measured using a valuation technique based on the carrying value of the assets and liabilities that are held to back the contract.

Unit-linked policyholder assets held by MPF and related policyholder liabilities are carried at fair value, with changes in fair value taken to profit or loss.

Amounts received from and paid to investors under these contracts are accounted for as deposits received or paid, and therefore not recorded in the Income Statement. At the reporting date the value of these contracts is stated at an amount equal to the fair value of the net assets held to match the contractual obligations.

(p) Insurance contract liabilities

Insurance contract liabilities are measured in accordance with actuarial principles and guidance. Any change in the value of the liability is taken to "Movement in fair value of unit-linked liabilities" in the Income Statement. Where these liabilities are reinsured, the element of the risk reinsured is valued on the same basis as the related liability and is included as an asset in the Statement of Financial Position. Changes in the value of the asset are taken to the Income Statement. Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date.

(q) Employee and member benefits*(i) Short-term employee benefits*

Short-term employee benefits are recognised as an undiscounted expense and liability when the employee has rendered services during an accounting period. Short-term compensated absences are recognised, in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences or, in the case of non-accumulating compensated absences, when the absences occur.

(ii) Profit-sharing and bonus payments

These are recognised when there is a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

(iii) Profit entitlement of members of Limited Liability Partnerships

Where a member of a Limited Liability Partnership (LLP) has an automatic entitlement to distributions of partnership profits in respect of their services, an expense (Distributions to members of LLPs) and a liability (Liabilities to members of LLPs) are recognised as their services are rendered during an accounting period.

*(iv) Pension obligations**Defined benefit schemes*

The Group operates a number of defined benefit pension arrangements. These schemes provide benefits based on final pensionable salary. The assets of the funded schemes are held in separate trustee-administered funds.

The pension liability recognised in the Statement of Financial Position is the present obligation of the employer, which is the estimated present value of future benefits that employees have earned in return for their services in the current and prior years, less the value of the plan assets in the schemes. The discount rate applied to the employees' benefits is the appropriate AA

corporate bond yield at the reporting date. A qualified actuary performs the calculation annually using the projected unit credit method. The pension costs of the schemes in the Income Statement are analysed into:

- current service cost, which is the actuarially calculated present value of the benefits earned by the active employees in each period;
- past service costs, which relate to employee service in prior periods, and arise as a result of the introduction of, or improvement to, retirement benefits in the current period. These are recognised in the Income Statement on a straight-line basis over the period in which the increase in benefits vests;
- settlements or curtailments recognised in the Income Statement to the extent that they are not allowed for in the actuarial assumptions. Gains or losses on settlements or curtailments are recognised at the date on which there is a demonstrable commitment to making a significant reduction in the number of employees covered by the plan or an amendment to the terms of the plan;
- the expected return on pension assets recognised within 'Finance revenue'; and
- the interest on pension obligations recognised in 'Finance costs'.

The actuarial gains and losses, which arise from any new valuation and from updating the previous actuarial valuation to reflect conditions at the reporting date, are taken in full to the Statement of Comprehensive Income for the period.

Defined contribution schemes

Contributions made to these schemes are charged to the Income Statement as they become payable in accordance with the rules of the scheme.

(v) Other long-term employee benefits

Other long-term employee benefits are recognised at the discounted present value of the obligation at the reporting date. The benefit is determined using actuarial techniques to estimate the amount of benefit employees have earned for their services at the reporting date.

(vi) Termination benefits

Termination benefits are recognised as a liability and an expense when the Group is committed to the termination of employment before the normal retirement date. A commitment to such termination benefits arises when the Group has initiated detailed plans which cannot realistically be withdrawn.

(r) Share-based payments

The Group operates a number of share scheme arrangements which require to be accounted for as share-based payments.

All grants of shares, share options or other share-based instruments that were granted after 7 November 2002 have been recognised as an expense. Where applicable, the fair values of share-based payment awards are measured using a valuation model applicable to the terms of the awards (Black

Scholes, Binomial or Monte Carlo simulation). The fair value is measured by an independent external valuer at the date the award is granted and the expense is spread over the period during which the employees become unconditionally entitled to exercise the awards, known as the vesting period. Where options exist for awards to vest on more than one date, the expense is initially spread over the period to the earliest possible vesting date. The cumulative expense recognised in the Income Statement is equal to the estimated fair value of the award multiplied by the number of awards expected to vest. Vesting of awards typically depends upon meeting defined performance criteria such as underlying earnings per share (EPS) targets and/or share price return targets or continued employment.

The fair value of share-based payment awards, where it is not considered possible to estimate reliably the fair value of these awards at the grant date, is determined by measurement of the equity instruments at intrinsic value. The intrinsic value is spread over the vesting period.

Vesting of equity-settled employee share awards depends upon meeting "market" and/or "non-market related" performance conditions. The type of vesting criteria affects the calculation of the expense charged to the Income Statement and subsequent adjustments, as follows:

- (i) Non-market related conditions are performance criteria not directly linked to Company share price targets, such as EPS targets and/or continued employment. The probability of meeting non-market conditions is incorporated into the expense charge via the estimate of the number of awards expected to vest. The total cumulative expense is reassessed at each reporting date and is ultimately adjusted to reflect the actual number of awards which vest. Therefore, if no awards vest, no cumulative expense charge is ultimately recognised.
- (ii) Market-related conditions are performance criteria linked to Company share price targets. The probability of meeting market conditions is incorporated into the calculation of the fair value of the award. Should the market-based performance condition not ultimately be met, no "true-up/down" adjustment is made to reflect this. Therefore, an expense charge is made whether market-based awards ultimately vest or not.

IFRS 2: Share-based Payment makes a distinction between awards settled in equity and those settled in cash. Equity-settled awards are charged to the Income Statement with a corresponding credit to equity. Cash-settled awards are charged to the Income Statement with a corresponding credit to liabilities. The estimated fair value of cash-settled awards is re-measured at each reporting date until the payments are ultimately settled.

Awards to employees treated as "good leavers" or employees who cancel their savings contracts (under the Share Save Scheme) vest immediately and the remaining full expense of the awards is charged to the Income Statement at that time. Good leavers include retirees and involuntary redundancies.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of EPS.

(s) Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

Where the Group expects some or all of a provision to be recovered from external parties, the recovery is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the Group has obligations under property leases and where the space has ceased to be used for the purposes of the business, full provision is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements.

(t) Share capital

When shares are issued, any component that creates a financial liability of the Company or Group is presented as a liability in the Statement of Financial Position, measured initially at fair value, net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption.

(v) New standards and interpretations not applied

The International Accounting Standards Board has issued the following standards, relevant to the Group, which have not yet been applied and have an effective date after the date of these Financial Statements:

International Accounting Standards (IAS/IFRS)		Effective for accounting periods beginning on or after
Endorsed by the European Union and available for early adoption:		
IFRS 7 Amendment	Disclosures – Transfers of financial assets	1 July 2011
Not yet endorsed by the European Union:		
IFRS 1 Amendment	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IAS 12 Amendment	Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 1 Amendment	Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27 Revised	Separate Financial Statements	1 January 2013
IAS 28 Revised	Investments in Associates and Joint Ventures	1 January 2013
IAS 19 Amendment	Employee Benefits	1 January 2013
IFRS 7 Amendment	Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
IAS 32 Amendment	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9	Financial Instruments (issued in 2009 and 2010)	1 January 2015

One of the changes in respect of the IAS 19 Amendment for the defined benefit pension arrangements is that the Net Interest Cost will replace the Interest Cost and Expected Return on Assets. The discount rate will be used to calculate the Net Interest Cost instead of a separate assumption for “asset returns”. In addition administrative expenses will require to be shown separately and not within the Net Interest Cost. The overall impact on the Income Statement will depend on the size of the defined benefit deficit and the differential between the expected return rate and the discount rate. It is expected that there will be a slight increase in the net expense as a result of these changes.

The Directors are investigating the impact of the other new and revised standards. It is anticipated that, at a minimum, additional disclosures will be required. The Group intends to adopt the standards in the reporting period in which they become effective.

The remainder of the issue proceeds is allocated to the equity component and included in shareholders' equity, net of transaction costs.

Ordinary Share capital

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. The Company's dealings in its own shares are reflected through equity.

Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders.

(u) Accounting for Employee Benefit Trusts (EBTs)

The Group has several EBTs which own shares in the Company and other investments to enable it to satisfy certain future settlements of share-based awards. The assets of the EBTs, which relate to unvested awards, are consolidated into the Group's results, with these own shares included within retained earnings at cost. Consideration received for such shares is also recognised in retained earnings. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of equity shares. Other investments held by EBTs are recognised as assets in the Statement of Financial Position.

Notes to the Consolidated Financial Statements

1. Operating segments

From a management perspective, the Group has three operating units and therefore presents three operating segments for segment reporting purposes:

- F&C;
- F&C REIT; and
- Thames River Capital (TRC).

While there are different sources of revenue and distinct distribution channels within operating segments, and assets under management can be categorised by client type and asset class, the Directors do not consider these to constitute separate operating segments within the meaning of IFRS 8: Operating Segments.

Management monitors the results of its three operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Transfer prices between the operating segments reflect arm's-length agreements entered into at the time of acquiring REIT and TRC and creating the F&C REIT and TRC operating segments. Segment revenue, operating expenses, finance revenue and profit/(loss) for the year include transactions between operating segments, which are eliminated on consolidation. The accounting policies of the operating segments are the same as those of the Group.

(a) Operating segments' financial information

	F&C		F&C REIT		TRC		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Revenue								
External clients	199.5	205.2	37.8	40.0	45.9	14.6	283.2	259.8
Inter-segment revenue	0.9	1.0	–	–	1.5	0.7	2.4	1.7
Segment revenue	200.4	206.2	37.8	40.0	47.4	15.3	285.6	261.5
Fee and commission expenses	(12.3)	(14.4)	(3.1)	(2.1)	(0.8)	(0.1)	(16.2)	(16.6)
Net gains and investment income on unit-linked assets	13.7	74.3	–	–	–	–	13.7	74.3
Movement in fair value of unit-linked liabilities	(13.4)	(73.3)	–	–	–	–	(13.4)	(73.3)
Operating expenses								
Operating expenses	(145.7)	(144.8)	(16.7)	(16.9)	(38.3)	(12.3)	(200.7)	(174.0)
Amortisation and depreciation	(31.7)	(40.2)	(11.0)	(11.6)	(6.9)	(2.3)	(49.6)	(54.1)
Other exceptional net operating expenses	(8.6)	(12.7)	–	(0.2)	(10.4)	(8.0)	(19.0)	(20.9)
Total operating expenses	(186.0)	(197.7)	(27.7)	(28.7)	(55.6)	(22.6)	(269.3)	(249.0)
Operating profit/(loss)	2.4	(4.9)	7.0	9.2	(9.0)	(7.4)	0.4	(3.1)
Finance revenue	39.6	21.3	0.1	0.1	0.1	0.3	39.8	21.7
Finance costs	(35.3)	(33.6)	–	–	(0.1)	–	(35.4)	(33.6)
F&C REIT put option fair value gain	8.7	6.4	–	–	–	–	8.7	6.4
TRC acquisition consideration adjustments	7.6	–	–	–	–	–	7.6	–
Tax income/(expense)	4.5	6.9	(0.5)	(1.4)	0.1	0.3	4.1	5.8
Profit/(loss) for the year	27.5	(3.9)	6.6	7.9	(8.9)	(6.8)	25.2	(2.8)
Segment assets	1,297.5	1,479.3	196.2	210.6	72.1	79.2	1,565.8	1,769.1
Segment liabilities	(937.8)	(1,116.3)	(20.0)	(23.8)	(30.7)	(29.8)	(988.5)	(1,169.9)
Other information								
Expenditure on non-current assets	3.9	3.5	0.4	0.2	0.5	40.1	4.8	43.8
Non-cash expenses/(income) other than depreciation and amortisation	(4.4)	1.8	0.1	0.1	10.0	6.1	5.7	8.0

Revenues from two external clients each represent 10% or more of the Group's total revenues. Revenues from the largest client amount to £31.0m (2010: £32.1m) and are earned in the F&C and F&C REIT segments. Revenues from the second largest client amount to £29.8m (2010: £30.6m) and are earned in the F&C segment.

1. Operating segments continued**(b) Reconciliations to Group Financial Statements**

	2011 £m	2010 £m
Total revenue		
Total revenue for reportable segments	285.6	261.5
Elimination of inter-segment revenue	(2.4)	(1.7)
Group revenue	283.2	259.8
Operating expenses		
Total operating expenses for reportable segments	269.3	249.0
Elimination of inter-segment expenses	(2.4)	(1.7)
Group operating expenses	266.9	247.3
Finance revenue		
Total finance revenue for reportable segments	39.8	21.7
Elimination of inter-segment finance revenue	(22.6)	(10.6)
Group finance revenue	17.2	11.1
Profit/(loss) for the year		
Total profit/(loss) for reportable segments	25.2	(2.8)
Adjustment for inter-segment profit distributions	(22.6)	(10.6)
Group profit/(loss) for the year	2.6	(13.4)
Assets		
Total assets for reportable segments	1,565.8	1,769.1
Elimination of inter-segment assets	(10.3)	(9.0)
Reclassification between assets and liabilities	–	(2.5)
Group assets	1,555.5	1,757.6
Liabilities		
Total liabilities for reportable segments	(988.5)	(1,169.9)
Elimination of inter-segment liabilities	10.3	9.0
Reclassification between assets and liabilities	–	2.5
Unallocated defined benefit pension liabilities	(20.5)	(27.6)
Group liabilities	(998.7)	(1,186.0)

The reportable segments' totals for all other line items reported in the table at note 1(a) are the same as those for the Group, with no reconciling differences.

(c) Geographical information

	2011 £m	2010 £m
Revenue by location of clients		
United Kingdom	108.9	102.1
Continental Europe*	150.3	138.0
Rest of the World	24.0	19.7
Group total	283.2	259.8
Non-current assets by domicile[†]		
United Kingdom	84.2	113.1
Continental Europe*	39.3	53.1
Rest of the World	15.0	18.6
	138.5	184.8
Unallocated	611.9	611.9
Group total	750.4	796.7

* Continental Europe is defined as being within the European Economic Area.

† Excluding financial investments, other receivables, deferred acquisition costs and deferred tax assets.

2. Net revenue

	2011 £m	2010 £m
Base management fees	267.2	245.3
Performance-related management fees	11.8	12.9
Total investment management fees	279.0	258.2
Other income	4.2	1.6
Total revenue	283.2	259.8
Renewal commission on open-ended investment products	(8.8)	(10.1)
Other selling expenses	(7.4)	(6.5)
Fee and commission expenses	(16.2)	(16.6)
Net revenue	267.0	243.2

Other income in 2011 includes £1.4m of compensation in respect of the loss of strategic partner assets.

3. Net gains and investment income on unit-linked assets

	Notes	2011 £m	2010 £m
Interest income on financial instruments attributable to policyholders	7	7.2	7.5
Dividend income		7.3	10.0
Movement in fair values of unit-linked assets		(0.8)	56.8
	29	13.7	74.3

Note 18(a)(i)(1) gives further background to the unit-linked assets held by the Group.

4. Expenses

(a) Total operating expenses

Total operating expenses, including exceptional costs, can be summarised into the following categories:

	2011 £m	2010 £m
Employee and member benefits and related expenses*	149.4	125.0
Premises expenses	12.6	9.3
Communication and information technology expenses	16.6	14.4
Third-party administration expenses	8.5	6.6
Promotional and client servicing expenses	7.1	6.4
Depreciation and amortisation expenses	49.6	54.1
Other expenses	23.1	31.5
Total operating expenses	266.9	247.3

* This includes £7.4m (2010: £5.6m) of employment-related expenses, which are not included in the employee benefit expense table in note 5.

(b) Operating expenses

Operating expenses include the following:

	Notes	2011 £m	2010 £m
Depreciation of owned tangible property, plant and equipment	12	3.2	2.7
Amortisation of software and licences	13	0.6	0.7
Auditor's remuneration	4(c)	1.3	1.2
Operating lease rentals – land and buildings (head leases)		10.7	11.8
Operating lease rentals – vehicles		0.4	0.3
Operating lease rentals – other*		2.3	4.2
Rentals receivable – operating leases (sub-leases)		(3.9)	(4.1)
Loss on disposal of property, plant and equipment		0.3	0.1
Realised exchange gains on forward currency contracts		–	(0.9)
Other foreign exchange losses		–	1.6

* Stated net of amounts receivable from brokers under Commission Sharing Arrangements.

Sub-lease rentals of £3.9m (2010: £4.1m) were received during the year, of which £3.7m (2010: £3.9m) relates to guaranteed payments and £0.2m (2010: £0.2m) relates to contingent payments.

All amounts included within operating lease and sub-lease rental payments represent minimum lease payments.

4. Expenses continued

(c) Auditor's remuneration

Fees paid to the Group's auditor are summarised as follows:

	KPMG	
	2011 £m	2010 £m
Annual audit fees – 2011	0.5	–
Annual audit fees – 2010	–	0.5
Fees payable to the Group's auditor for the audit of the Group and Company's annual Financial Statements	0.5	0.5
Audit of financial statements of subsidiaries pursuant to legislation	0.3	0.3
Total audit fees of the Group	0.8	0.8
Audit-related assurance services	0.1	0.1
Other assurance services	0.2	0.2
Other non-audit services	0.2	0.1
Total auditor's remuneration	1.3	1.2

The Group's policy on the award of non-audit services to accountancy firms is outlined in the Directors' Report on Corporate Governance.

During the year the fees paid by F&C to other accountancy firms for non-audit services were as follows:

	2011 £m	2010 £m
PricewaterhouseCoopers	0.5	0.7
Ernst & Young	0.3	0.4
Deloitte	0.2	1.8
BDO	0.1	–
Moore Stephens	0.1	–
	1.2	2.9

In addition to the above, the following fees were paid by OEICs and unit trusts, for services provided directly to them, for which Group companies are the Authorised Corporate Director or Manager:

	2011 £m	2010 £m
PricewaterhouseCoopers	0.3	0.4

5. Employee and member benefit expenses

Total employee benefit expenses, including remuneration of the Directors and expenses relating to LLP members, were:

	Notes	2011 £m	2010 £m
Short-term employee and member benefits:			
Salaries and related benefits		62.1	58.7
Bonus		19.5	16.0
Wages and salaries		81.6	74.7
Distributions to members of LLPs		18.3	6.0
Social Security costs		10.2	10.4
TRC Commutation payment to LLP members		–	1.4
		110.1	92.5
Post-employment benefits:			
Defined contribution pension expenses	25(h)	3.5	3.9
Defined benefit pension expense/(income)	25(d)	3.0	(1.3)
		6.5	2.6
Total of wages and salaries, Social Security costs and post-employment benefits		116.6	95.1
Other long-term employee benefits		–	0.1
Termination benefits		7.6	1.6
Share-based payment expense	26	17.8	22.6
Total employee and member benefits expenses		142.0	119.4

The monthly average number of employees and members (including Executive Directors) of the Group during 2011 was 952 (2010: 1,018). F&C Asset Management plc had no employees during either year.

The above table includes £14.4m (2010: £6.1m) of exceptional net employment costs.

6. Exceptional income and expenditure

(a) Other exceptional net operating expenses

The Group has classified the following operating (expenses)/income as exceptional:

	Notes	2011 £m	2010 £m
Exceptional employment (expense)/income	(i)	(8.7)	2.5
TRC Commutation expenses	(ii)	(5.7)	(6.2)
TRC Management Retention and Incentive Plans	(iii)	(4.6)	(1.8)
Operations outsourcing expenses	(iv)	(2.7)	–
F&C Partners litigation expense	(v)	(1.9)	(6.0)
TRC integration expenses	(vi)	(0.2)	(1.1)
F&C REIT variable non-controlling interests SBP income	(vii)	4.8	0.3
Corporate advisory fees	(viii)	–	(9.9)
Foreign exchange transfer from reserves on liquidation of subsidiary	(ix)	–	1.3
		(19.0)	(20.9)

(i) Exceptional employment (expense)/income

During 2011, the Board initiated actions to achieve 'rightsizing' staff cost savings as a result of the operations outsourcing and the subsequent strategic review process. As a result, some £8.7m of non-recurring redundancy and related staff costs were incurred during the year in order to achieve the targeted level of recurring staff cost savings.

During 2010 the Group recognised a net £2.5m of non-recurring income associated with employee remuneration arrangements. This comprised a £4.0m pension curtailment credit arising from benefit changes made to defined benefit pension arrangements, as outlined in note 25(d), offset by a £0.6m past service pension cost and £0.9m of redundancy and related staff costs, which were incurred as a result of cost saving actions initiated during that year.

The Directors consider these non-recurring employment (expenses)/income to be exceptional in nature and have therefore excluded them from the measurement of underlying earnings in the respective financial year.

(ii) TRC Commutation expenses

The Divisional Members of TRC Investment Teams entered into put and call options at the time of the TRC acquisition, which, if exercised, will typically transfer up to 20% of their entitlement to management fee profits to the F&C Group. Under IFRS, the share element of the consideration payable under these Commutation arrangements requires to be accounted for as a share-based payment.

Given the capital nature of these arrangements, the Directors consider it appropriate to treat the total Commutation expense as exceptional in nature and exclude it from the measurement of underlying earnings for each financial year.

(iii) TRC Management Retention and Incentive Plans

As a condition of the acquisition of TRC, the Group established a Management Retention Plan (MRP) and Management Incentive Plan (MIP) to retain and incentivise certain TRC personnel. At 31 December 2011 it has been assessed that none of the MIP performance criteria will be met and, as a result, the cumulative charge previously recognised has been reversed and a credit has been recognised in the 2011 Income Statement. The MRP expense (including NIC) recognised in the income statement is £4.7m (2010: £1.7m). The 2011 credit in respect of the MIP is £0.1m (2010: charge of £0.1m). Details of these share-based payment arrangements are given in notes 26(e) and (f).

Given the quantum and nature of these awards, the Directors consider it appropriate to treat the associated expense/(credit) as exceptional and exclude them from the measurement of underlying earnings for each financial year.

(iv) Operations outsourcing expenses

During 2011, £2.7m of legal, advisory and consultancy costs were incurred in respect of the planning and execution of the outsourcing of certain of the Group's back and middle office investment operations to State Street.

The Directors consider these project costs to be exceptional in nature and have therefore excluded this expense from the measurement of underlying earnings for 2011.

6. Exceptional income and expenditure continued

(v) F&C Partners litigation expense

Note 24 outlines the background and status of this litigation and details the amounts paid and potentially payable to the founder members of F&C Partners LLP. During 2011, £2.1m of further legal costs were incurred by the Group in continuing to defend its position in respect of all disputed matters and £2.2m of related interest costs payable to the founder members have been recognised. These costs have been offset by the utilisation of the £2.4m provision previously recognised in respect of the totality of this dispute, resulting in a net cost of £1.9m being recognised in the Income Statement during the year.

During 2010, some £6.0m of legal and professional costs were incurred with respect to this matter.

Given the quantum and nature of this expense, the Directors continue to consider it appropriate to treat it as exceptional in nature and exclude it from the measurement of underlying earnings in both financial years.

(vi) TRC integration expenses

In 2010 the Group incurred some £1.1m of integration expenses associated with the alignment of certain activities within the enlarged Group. A further £0.2m of such costs were incurred in 2011.

Given the nature of this expense, the Directors consider it appropriate to treat it as exceptional and exclude it from the measurement of underlying earnings for each year.

(vii) F&C REIT variable non-controlling interests SBP income

30% of F&C REIT, the Group's property asset management business, is held by the former owners of REIT, two of whom occupy key management roles within F&C REIT.

The former owners have the opportunity to increase their ownership of F&C REIT by a further 10% through the achievement of stretching performance targets over the six-year period to 31 December 2014. This earn-out mechanism meets the criteria of, and is accounted for as, a share-based payment. At 31 December 2011 it has been assessed that the performance target is unlikely to be achieved in any of the remaining performance periods. As a result, the cumulative charge previously recognised has been reversed and a credit of £4.8m has been recognised in the 2011 Income Statement (2010: a credit of £0.3m).

These credits have been excluded from underlying earnings, as this arrangement is considered to be of a capital nature. Further details of this arrangement are given in note 26(c).

(viii) Corporate advisory fees

During 2010, £7.5m of corporate advisory and related transaction expenses were incurred in connection with the acquisition of TRC, together with £2.0m of abortive acquisition costs in respect of C-Quadrat and other corporate costs of some £0.4m.

The Directors considered these corporate costs to be exceptional in nature and therefore excluded this £9.9m aggregate expense from the measurement of underlying earnings.

(ix) Foreign exchange transfer from reserves on liquidation of subsidiary

Following the transfer of its assets under management to another F&C Group company, F&C Luxembourg was put into voluntary liquidation during 2010. The cumulative foreign exchange gain of £1.3m previously recognised in the foreign currency translation reserve was 'recycled' to the Income Statement in accordance with accounting requirements.

Due to the nature of this gain, the Directors excluded this credit from the calculation of underlying earnings for 2010.

(b) F&C REIT put option fair value gain

	2011 £m	2010 £m
F&C REIT put option fair value gain	8.7	6.4

The fair value of the F&C REIT put option liability, as disclosed in note 28, reflects the value of the portion of the F&C REIT business which is currently owned by the non-controlling interest partners and which is the subject of options. The £8.7m reduction in the fair value of the options during 2011 has been recognised as a gain in the Income Statement (2010: gain of £6.4m).

The Directors consider the value of these options and movements therein to be of a capital nature, and have therefore excluded these gains from the measurement of underlying earnings.

6. Exceptional income and expenditure continued

(c) TRC acquisition consideration adjustments

	2011 £m	2010 £m
Net asset consideration adjustment	0.1	–
Deferred consideration adjustment	7.5	–
	7.6	–

The total consideration of £48.6m recognised in 2010 for the acquisition of TRC included a £7.5m estimate of further cash consideration and £7.5m of estimated conditional consideration payable if certain performance criteria were achieved.

During 2011, a payment of £7.4m was made to the vendors of TRC, under the terms of the Sale and Purchase Agreement, representing an adjustment to the initial cash consideration to reflect the excess of net assets acquired over and above the agreed target. As the payment was less than the estimate of £7.5m, the excess of £0.1m has been credited to the Income Statement in accordance with IFRS.

The 31 December 2011 conditional consideration performance target was not achieved and it is anticipated that the comparable position measured at 30 June 2012 will not be achieved. As a result, the associated liability of £7.5m has been released to the 2011 Income Statement in accordance with IFRS.

Due to the capital nature of these items, the Directors have excluded the total credit of £7.6m from the calculation of underlying earnings for 2011.

7. Finance revenue

	Note	2011 £m	2010 £m
Loans and receivables:			
Bank interest receivable		1.8	1.1
Other interest receivable		0.2	0.2
Designated as fair value through profit or loss:			
Movement in fair value of investments		–	0.3
Designated as available for sale:			
Investment income receivable		3.7	–
		5.7	1.6
Other finance revenue:			
Expected return on pension plan assets	25(d)	11.5	9.5
Total finance revenue		17.2	11.1

	Note	2011 £m	2010 £m
Summary of total interest income:			
Bank interest receivable		1.8	1.1
Other interest receivable		0.2	0.2
Interest income on other financial instruments attributable to policyholders	3	7.2	7.5
Total interest income		9.2	8.8

8. Finance costs

	Note	2011 £m	2010 £m
Interest expense on financial liabilities recognised at cost using the effective interest rate method:			
Fixed/Floating Rate Subordinated Notes 2016/2026		8.4	8.4
Guaranteed Fixed Rate Loan Notes 2016		13.5	12.2
Floating Rate Secured Notes 2010		–	0.2
Bank charges and other interest payable		0.4	0.5
Total interest expense		22.3	21.3
Amortisation of loan note issue costs and facility fees		1.0	0.5
Unwinding of discount on onerous provisions		0.5	0.5
Designated as fair value through profit or loss:			
Movement in fair value of investments		0.1	–
Other finance costs:			
Interest cost on pension obligations	25(d)	11.5	11.3
Total finance costs		35.4	33.6

9. Income tax

(a) Analysis of tax income in the year

The major components of tax (income)/expense recognised in the Income Statement and Statement of Changes in Equity are:

	2011 £m	2010 £m
Current income tax:		
UK	3.7	0.8
Overseas	5.7	8.5
Adjustments in respect of previous years	(0.1)	(0.2)
Deferred income tax:		
Relating to origination and reversal of temporary differences	(12.7)	(12.8)
Adjustments in respect of previous years	0.1	(1.3)
Adjustments in respect of Corporation Tax rate change	(0.8)	(0.8)
Tax income reported in the Income Statement	(4.1)	(5.8)
	2011 £m	2010 £m
Deferred and current income tax related to items charged or credited directly to equity:		
Fair value movements on financial investments	(0.5)	0.3
Net actuarial gains on defined benefit pension schemes	1.0	3.0
Loss on overseas pension schemes	(0.3)	–
Adjustments in respect of Corporation Tax rate change	0.3	0.2
Tax expense recognised directly in the Statement of Comprehensive Income	0.5	3.5
Tax credit associated with purchase of NCI* in F&C Partners LLP	(2.9)	–
Tax (income)/expense recognised directly in Statement of Changes in Equity	(2.4)	3.5

* Non-controlling interests (NCI).

(b) Factors affecting the tax income for the year

A reconciliation between the actual tax income and the accounting loss multiplied by the Group's domestic tax rate for the years ended 31 December 2011 and 2010 is as follows:

	2011 £m	2010 £m
Loss before tax	(1.5)	(19.2)
At the Group's statutory income tax rate of 26.5% (2010: 28.0%)	(0.4)	(5.4)
Adjustments in respect of previous years	–	(1.5)
Disallowed expenses	0.2	3.4
Non-taxable income	(3.0)	(1.6)
Overseas tax	0.2	0.1
Unrecognised losses	0.1	0.1
Share-based payments	(0.4)	(0.1)
Disallowed distributions to LLP members	4.9	1.7
Non-taxable income attributable to LLP members	(4.9)	(1.7)
Corporation Tax rate change	(0.8)	(0.8)
Tax income reported in the Income Statement	(4.1)	(5.8)

Deferred tax assets and liabilities are shown in note 17.

(c) Effective rate of tax and factors affecting future tax charges

The Chancellor of the Exchequer's Emergency Budget on 22 June 2010 announced that the UK Corporation Tax rate will reduce from 28% to 24% over a period of four years from 2011. A further 1% reduction in the UK Corporation Tax rate was announced in the Chancellor's Budget of 23 March 2011. The combination of these announcements when substantively enacted will take the Group's UK effective tax rate to 23% by 2015.

The first tranche of these reductions became effective during 2011 when the Corporation Tax rate moved from 28% to 26% on 1 April 2011, leading to a statutory tax rate in the UK for the Group of 26.5% for 2011.

A further rate change to 25% was substantively enacted on 5 July 2011, effective from 1 April 2012. As a result, the statutory rate for the UK Group will move to 25.25% for 2012.

The effect of the rate changes substantively enacted during the year has been to reduce the net deferred tax liability by a net £0.5m as at 31 December 2011. This comprises a £2.8m tax credit attributable to intangible assets, a £2.0m tax charge associated with the reduction in value of deferred tax assets and a £0.3m tax charge to equity reflecting the deferred tax that is expected to reverse through equity.

The Directors are of the view that due to the significant level of estimation required it is not yet possible to quantify the effect of the proposed subsequent 2% rate reduction in future years, although this will further reduce the Group's current tax charge in future and reduce the Group's deferred tax assets and liabilities recognised in the Statement of Financial Position.

10. Earnings per share

Basic loss per share amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted loss per share amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares at the reporting date.

In the opinion of the Directors the 'underlying earnings' as quantified in the 'Reconciliation of (loss)/earnings' table below, more accurately reflects the underlying earnings performance of the Group.

Reconciliation of (loss)/earnings per Ordinary Share	2011	2010
	p	(as restated*) p
Basic loss per Ordinary Share	(0.10)	(3.31)
Amortisation of intangibles	5.61	6.48
F&C REIT put option fair value gain	(1.69)	(1.28)
F&C Partners litigation expense	0.16	0.88
TRC Commutation expenses	1.10	1.24
Exceptional employment expense/(income)	1.24	(0.38)
F&C REIT variable NCI SBP income	(0.93)	(0.06)
TRC Management Retention and Incentive Plans	0.80	0.30
TRC integration expenses	0.01	0.18
Operations outsourcing expenses	0.39	–
TRC acquisition consideration adjustments	(1.47)	–
Deferred Tax – Corporation Tax rate change*	0.39	0.16
Corporate advisory fees	–	1.97
Foreign exchange transfer from reserves on liquidation of subsidiary	–	(0.26)
Prior year unrealised losses on forward currency contracts, now realised	–	(0.18)
Underlying earnings per Ordinary Share	5.51	5.74
Foreign exchange losses included within underlying earnings per share	–	0.28
Underlying earnings per Ordinary Share excluding foreign exchange losses	5.51	6.02

* As restated for the effect of the Deferred Tax – Corporation Tax rate change being excluded from underlying EPS.

	2011	2010
	p	p
Diluted loss per Ordinary Share*	(0.10)	(3.31)
Diluted underlying earnings per Ordinary Share	4.93	5.52
Diluted underlying earnings per Ordinary Share excluding foreign exchange losses	4.93	5.79

* Where the Group has incurred a basic loss per Ordinary Share, no dilution arises despite the 'dilutive potential weighted average number of Ordinary Shares' being greater than the 'weighted average number of Ordinary Shares used to determine the basic loss per share'. As a result, the reported basic and diluted loss per Ordinary Share are the same in 2011 and 2010.

All amounts disclosed in the table above are stated net of any attributable tax, as presented in the 'Reconciliation of (loss)/earnings' table below.

10. Earnings per share continued

The following tables disclose the (loss)/earnings and share capital data used in the (loss)/earnings per share calculations:

	2011			2010 (as restated*)		
	Gross £m	Tax £m	Net £m	Gross £m	Tax £m	Net £m
Reconciliation of (loss)/earnings						
Loss attributable to ordinary equity holders of the parent for basic loss per share	(4.0)	3.5	(0.5)	(22.1)	5.5	(16.6)
Amortisation of intangibles ⁽¹⁾	42.6	(13.7)	28.9	47.3	(14.8)	32.5
F&C REIT put option fair value gain	(8.7)	–	(8.7)	(6.4)	–	(6.4)
F&C Partners litigation expense	1.9	(1.1)	0.8	6.0	(1.6)	4.4
TRC Commutation expenses	5.7	–	5.7	6.2	–	6.2
Exceptional employment expense/(income) ⁽²⁾	8.7	(2.3)	6.4	(2.6)	0.7	(1.9)
F&C REIT variable NCI SBP income	(4.8)	–	(4.8)	(0.3)	–	(0.3)
TRC Management Retention and Incentive Plans	4.6	(0.5)	4.1	1.8	(0.3)	1.5
TRC integration expenses	0.2	(0.1)	0.1	1.1	(0.2)	0.9
Operations outsourcing expenses	2.7	(0.7)	2.0	–	–	–
TRC acquisition consideration adjustments	(7.6)	–	(7.6)	–	–	–
Deferred Tax – Corporation Tax rate change*	–	2.0	2.0	–	0.8	0.8
Corporate advisory fees	–	–	–	9.9	–	9.9
Foreign exchange transfer from reserves on liquidation of subsidiary	–	–	–	(1.3)	–	(1.3)
Prior year unrealised losses on forward currency contracts, now realised	–	–	–	(1.3)	0.4	(0.9)
Underlying earnings attributable to ordinary equity holders of the parent	41.3	(12.9)	28.4	38.3	(9.5)	28.8
Foreign exchange losses included within underlying earnings	–	–	–	2.0	(0.6)	1.4
Underlying earnings attributable to ordinary equity holders of the parent excluding foreign exchange losses	41.3	(12.9)	28.4	40.3	(10.1)	30.2

* As restated for the effect of the Deferred Tax – Corporation Tax rate change being excluded from underlying EPS.

⁽¹⁾ Excludes £2.0m (2010: £2.3m) of amortisation of intangibles (net of tax) which is attributable to NCI.

⁽²⁾ Excludes £nil (2010: £0.1m) of costs (net of tax) which are attributable to NCI.

	2011 No.	2010 No.
Share capital		
Weighted average number of Ordinary Shares ⁽³⁾	515,372,721	501,469,251
Weighted average dilutive potential Ordinary Shares exercisable:		
The Long Term Remuneration Plan awards	30,316,564	16,130,914
TRC Commutation arrangements	13,175,821	–
TRC Management Retention Plan awards	12,554,160	–
The Executive Director Remuneration Plan awards	2,157,665	2,543,218
Deferred Share awards	975,054	–
Purchased Equity Plan awards	606,632	694,880
Dilutive potential weighted average number of Ordinary Shares	575,158,617	520,838,263

⁽³⁾ Excluding own shares held by Nominees/Employee Benefit Trusts.

In the period between the reporting date and the approval of the Consolidated Financial Statements, 1,112,958 share awards (2010: 9,474,354) vested which were satisfied by the utilisation of own shares held by Employee Benefit Trusts.

10. Earnings per share continued

Potential future dilution

The following share-based payment arrangements could potentially dilute basic earnings per share in the future, but were not included in the above calculation of diluted earnings per share because they were either anti-dilutive for the years presented or had not met the relevant performance criteria at the reporting date:

- Long-Term Remuneration Plan (restricted awards)
- F&C REIT variable NCI SBP
This earn-out arrangement gives the F&C REIT NCI partners the opportunity to increase their ownership of F&C REIT from 30% to 40% before 31 December 2014. At 31 December 2011, the Directors do not expect any of the ownership percentage to transfer. Any transfer would potentially dilute the profits attributable to the equity holders of the parent. However, the principle of this incentive arrangement is that the incremental profits which would become attributable to NCI as a result of achieving the performance criteria are funded from the increased level of absolute profits generated by F&C REIT for the year in which vesting arises, rather than diluting the current level of profits attributable to equity holders of the parent. There can be no guarantee that, subsequent to vesting, the higher level of profits which met the vesting criteria would be sustainable.
- TRC Management Incentive Plan
- TRC Commutation arrangements
The Divisional Members of TRC Investment Teams have put and call options to transfer up to 20% of their entitlement to management fee profits of their respective Investment Teams to F&C. The exercise of these options is expected to enhance the profits attributable to equity holders of the parent. However, there can be no guarantee that, subsequent to the exercise of the options, a higher level of absolute profits would be sustainable.
- Share Save Scheme
- 1995 and 2002 Executive Share Option Schemes
At 31 December 2011, the 909,900 (31 December 2010: 1,318,528) options outstanding have all vested. These have exercise prices between 139.00p and 240.83p and are anti-dilutive as the option prices are above the average share price for the year.

Details of all awards potentially dilutable, together with the total number of awards outstanding at each reporting date, are disclosed in note 26.

In addition, the TRC conditional consideration payment (as detailed in note 15(a)) could potentially dilute earnings per share. Under the acquisition agreement, one further potential instalment of up to £10.0m is payable to the vendors where the Run-rate EBITDA performance target is achieved. While the achievement of the performance criteria would enhance the level of profits attributable to the equity holders of the parent, there can be no guarantee that the higher level of profits which met the performance criteria would be sustainable.

11. Ordinary dividends

	2011 £m	2010 £m
Declared and paid during the year		
Equity dividends on Ordinary Shares:		
Final dividend for 2010: 2.0p (2009: 4.0p)	10.4	19.4
Interim dividend for 2011: 1.0p (2010: 1.0p)	5.2	5.1
	15.6	24.5
Proposed for approval at the Annual General Meeting		
Equity dividends on Ordinary Shares:		
Final dividend for 2011: 2.0p (2010: 2.0p)	10.4	10.3

The entitlement of Employee Benefit Trusts to receive dividends (on some of their holdings of F&C shares) has been waived by the Trustees. This has resulted in the following dividends being waived:

	Shares	£m
2011 Dividends		
2010 Final	14,436,341	0.3
2011 Interim	11,008,289	0.1
2010 Dividends		
2009 Final	9,169,006	0.4
2010 Interim	17,372,505	0.2

12. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Office furniture and equipment £m	Motor vehicles £m	Total £m
Cost:					
At 1 January 2010	13.2	7.6	2.3	0.9	24.0
Fair value of additions arising on acquisition of TRC	0.5	0.9	0.3	–	1.7
Additions	0.1	0.8	0.1	0.2	1.2
Disposals	(0.1)	(0.6)	(0.1)	(0.1)	(0.9)
Foreign exchange losses	(0.2)	–	–	–	(0.2)
At 31 December 2010	13.5	8.7	2.6	1.0	25.8
Additions	0.6	1.5	0.3	0.3	2.7
Disposals	(0.8)	(0.2)	–	(0.3)	(1.3)
At 31 December 2011	13.3	10.0	2.9	1.0	27.2
Depreciation and impairment:					
At 1 January 2010	6.8	6.8	1.7	0.3	15.6
Depreciation charge for the year	1.5	0.8	0.2	0.2	2.7
Disposals	–	(0.6)	–	(0.1)	(0.7)
Foreign exchange gains	(0.1)	–	–	–	(0.1)
At 31 December 2010	8.2	7.0	1.9	0.4	17.5
Depreciation charge for the year	1.7	1.1	0.2	0.2	3.2
Disposals	(0.6)	(0.1)	–	(0.2)	(0.9)
At 31 December 2011	9.3	8.0	2.1	0.4	19.8
Net book values:					
At 31 December 2009	6.4	0.8	0.6	0.6	8.4
At 31 December 2010	5.3	1.7	0.7	0.6	8.3
At 31 December 2011	4.0	2.0	0.8	0.6	7.4

There are no restrictions on the Group's title to the above assets and none are pledged as security for liabilities, other than the security over FCAM's holding in F&C REIT, which was relinquished on 29 June 2010 and which effectively yielded beneficial entitlement to some of the Group's property, plant and equipment.

The cost of fully depreciated property, plant and equipment which is still in use at 31 December 2011 is £9.1m (31 December 2010: £8.2m).

13. Goodwill and other intangible assets

	Goodwill £m	Investment management contracts £m	Software and licences £m	Total £m
Cost:				
At 1 January 2010	595.1	685.1	4.7	1,284.9
Fair value of additions arising on acquisition of TRC	–	23.0	0.5	23.5
Additions	16.8	–	0.6	17.4
Foreign exchange losses	–	(3.5)	–	(3.5)
At 31 December 2010	611.9	704.6	5.8	1,322.3
Additions	–	–	2.1	2.1
Foreign exchange losses	–	(1.1)	–	(1.1)
At 31 December 2011	611.9	703.5	7.9	1,323.3
Amortisation and impairment:				
At 1 January 2010	–	478.4	4.1	482.5
Amortisation charge for the year	–	50.7	0.7	51.4
At 31 December 2010	–	529.1	4.8	533.9
Amortisation charge for the year	–	45.8	0.6	46.4
At 31 December 2011	–	574.9	5.4	580.3
Net book values:				
At 31 December 2009	595.1	206.7	0.6	802.4
At 31 December 2010	611.9	175.5	1.0	788.4
At 31 December 2011	611.9	128.6	2.5	743.0

13. Goodwill and other intangible assets continued

Goodwill

Goodwill has arisen from various business combinations and, reflecting the Group's reportable operating segments disclosed in note 1, is represented by three cash generating units (CGUs), as follows:

	31 December 2011	31 December 2010
	£m	£m
F&C	467.2	467.2
F&C REIT	127.9	127.9
Thames River Capital	16.8	16.8
	611.9	611.9

Goodwill is not amortised but is tested for impairment annually at individual CGU level, or when indicators of potential impairment are identified. The carrying value of goodwill attributable to each CGU was tested for impairment as at 31 December 2011, as described below; to date, none of the CGUs has suffered any impairment of goodwill.

Investment management contracts (management contracts)

Management contracts predominantly relate to contracts arising from business acquisitions.

Management contracts are amortised over their expected useful lives and are tested for impairment only when indicators of potential impairment are identified. No such indicators have been identified since the last impairment review undertaken as at 31 December 2008 and therefore no impairment review of management contracts has been undertaken this year. Management contract impairment losses recognised in prior years relate entirely to the F&C operating segment; the accumulated impairment losses at 31 December 2011 were £218.3m (31 December 2010: £218.3m).

The foreign exchange losses recognised in the year arise from the relative weakening of the Euro over the course of 2011, decreasing the value of Euro-denominated contracts, (primarily F&C insurance contracts), in Sterling terms.

The categories of management contracts, their carrying amounts at the year end, remaining amortisation periods and estimated useful lives are as follows:

	31 December 2011			31 December 2010		
	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)	Net book values £m	Remaining amortisation period (years)	Estimated useful life (years)
RSAL insurance contracts	0.3	½	10	1.0	1½	10
RSAL retail contracts/F&C OEICs	4.7	½ – 3	10	9.1	1½ – 4	10
F&C insurance contracts	41.6	3	10	58.1	4	10
F&C institutional contracts (fixed term/non-fixed term)	4.8	3/–	10/4	6.7	4/–	10/4
F&C investment trust contracts	9.7	4½	10	11.8	5½	10
F&C advisory and sub-advisory contracts	14.0	3	10	19.3	4	10
Private equity fund of funds	0.8	13	20	0.9	14	20
REIT property contracts	37.3	4	7	47.5	5	7
Thames River Capital contracts	15.4	3	4	21.1	4	4
	128.6			175.5		

Impairment testing of goodwill

The recoverable amount of the CGUs has been determined on their value in use (including terminal value) at each respective testing date for 2010 and 2011. The value in use is calculated by discounting the cash flow projections based on the latest annual financial budget, and management's forecasts. A long-term growth rate is used to extrapolate the cash flows reflecting the nature of the Group's business and the Board's current view that there is no reason to believe that the CGUs will not continue in operation in perpetuity.

The key assumptions adopted in these calculations for each operating segment are as follows:

	31 December 2011			31 December 2010		
	F&C	F&C REIT	TRC	F&C	F&C REIT	TRC
Discount rate	10.15%	10.15%	12.15%	8.60%	8.60%	10.60%
Long-term market growth rate	5.20%	4.30%	5.45%	5.30%	4.25%	5.80%
Inflation rate*	3.95%	3.95%	3.95%	4.15%	4.15%	4.15%

* The costs included in year one of the projections reflect those included in the budget for the respective year.

13. Goodwill and other intangible assets continued

The discount rate is based on the Group's weighted average cost of capital to estimate a market relevant rate, calculated as at the year end, and takes into account the relative risks associated with the Group's various revenue streams included in the respective operating segments. The discount rates disclosed above are the post-tax rates which have been applied in the projections; the pre-tax discount rates are 12.50% and 14.65% for F&C/F&C REIT and TRC respectively (2010: 10.85% and 13.00% respectively). All discount rates shown subsequently within this note are stated after tax.

Revenues are based on the budget for each operating segment, and management's net business flow forecasts for the subsequent four years. Thereafter, revenues have been grown in line with the Group's long-term view of market growth, consistent with that experienced historically, in the long-term, across the markets in which assets are invested. The different rates reflect the composite mix of assets held in each operating segment for each period. Net new business revenues are included at the levels assumed in the 2012 budget and management's forecasts up to 2016 with no further net new business included thereafter. Additional costs associated with the increased revenues have been included in the projections, primarily to reflect variable remuneration costs. Where revenues earned from significant contracts with a fixed term are assumed to terminate at the end of the fixed term, the operating costs have been reduced by an amount which assumes associated profit margins of 50% (2010: 70%).

Projected operating costs for the first year are driven by the budgeted profit margins for each operating segment for 2012. Thereafter, both existing budgeted costs and, as noted above, further costs added associated with net new business revenue forecasts have been grown at inflation rates to accord with anticipated future salary and other cost increases.

Values in use are compared to the carrying values of goodwill, attributable management contracts and other intangible assets (net of associated deferred tax provisions), and property, plant and equipment in order to ascertain whether any impairment exists.

As this annual impairment review of goodwill indicated surpluses in all segments, no impairment has been recognised in the year in respect of goodwill (2010: £nil).

The key assumptions noted in the above table are those to which the calculated values in use are most sensitive. These assumptions, together with the inclusion in the projections of forecast net new business revenues and associated costs, result in the following surpluses of goodwill:

	31 December 2011			31 December 2010		
	F&C £m	F&C REIT £m	TRC £m	F&C £m	F&C REIT £m	TRC £m
Excess of recoverable amount over carrying value	557.8	16.8	94.4	787.8	44.6	234.9

In order to assess the sensitivity of the key assumptions on the carrying values of goodwill, an analysis was conducted to ascertain the change that would be required to derive values in use which approximated to the carrying values of goodwill, and beyond which impairment would arise.

The absolute levels, on a standalone basis, of the key assumptions which most closely resulted in a match in the values in use to the carrying values of goodwill were as follows:

	31 December 2011			31 December 2010		
	F&C	F&C REIT	TRC	F&C	F&C REIT	TRC
Discount rate	16.97%	11.02%	30.80%	16.19%	10.36%	39.84%
Long-term market growth rate	1.67%	3.49%	(2.29)%	2.49%	2.85%	(5.93)%
Inflation rate	8.39%	5.10%	11.83%	7.38%	6.74%	14.21%
Per cent. achievement of new business targets	<0.00%	72.56%	<0.00%	<0.00%	<0.00%	<0.00%

14. Financial investments

The following assets are designated as available for sale:

	2011	2010
	£m	£m
Unquoted investments		
At 1 January	3.5	2.2
Fair value movement in the year	1.5	1.3
Fair value gains transferred to the Income Statement	(3.3)	–
At 31 December	1.7	3.5

Unquoted investments include the Group's direct investment, co-investments and carried interest entitlement in private equity limited partnerships. The investments have no fixed maturity date or coupon rate.

The fair value of the unquoted investments has been estimated using International Private Equity and Venture Capital Valuation Guidelines.

The Directors believe that the estimated fair values resulting from the valuation technique applied to unquoted shares which are recorded in the Statement of Financial Position, and the related realised fair value gains recorded in the Income Statement, are reasonable and the most appropriate at the reporting date.

Included within the unquoted financial investments at 31 December 2011 are £0.1m (31 December 2010: £0.1m) of equity instruments measured at the price of recent investments. The fair value of these investments cannot be measured reliably as the Group does not have access to the underlying information to produce fair value valuations for these investments. These investments consist of loans and carried interest in private equity limited partnerships. These investments are managed by external fund managers and the Group obtains income when the investments are realised. The Group intends to hold these investments until all the private equity investments are realised. In 2011, the Group received £0.4m (2010: £nil) in respect of the investments held at cost.

15. Acquisition of subsidiaries

The acquisition of Thames River Capital Group was made on 1 September 2010. Section (a) discloses the 2010 acquisition note and section (b) discloses the 2011 updates for changes in consideration.

(a) 2010 – Acquisition of Thames River Capital Group

F&C Asset Management plc (FCAM) acquired and gained control of the Thames River Capital Group (TRC or the TRC Group) on 1 September 2010 ('Completion' date). TRC is a London-based asset management business that provides specialist products and services to wholesale and wealth management clients. TRC manages a range of specialist high alpha and absolute return products.

The acquisition of TRC represented an attractive opportunity to broaden F&C's specialist investment management capabilities in multiple product areas, augment its sales and marketing skills and expand its distribution footprint, thereby accelerating the achievement of F&C's strategic objectives.

The TRC Group operates its business through two limited liability partnerships (LLPs), Thames River Capital LLP and Thames River Multi-Capital LLP. Between them they had seven Investment Teams at 1 September 2010.

FCAM acquired 100% ownership of Thames River Capital Group Limited which, in turn, owned, directly or indirectly, 100% of the following entities at the date of acquisition:

Thames River Capital Holdings Limited
 Thames River Capital UK Limited (TRC UK)
 TRC UK's interest in Thames River Capital LLP
 TRC UK's interest in Thames River Multi-Capital LLP
 Thames River Capital GmbH

As a result of the acquisition, F&C indirectly acquired TRC UK's economic and membership interests in the LLPs.

The consideration payable by FCAM for the acquisition will be up to £53.6m (excluding the adjustment in respect of the consolidated net assets target) comprised as follows:

- (i) The initial consideration:
 - £33.6m was paid in cash at Completion; and
 - The consideration paid at Completion will be subject to an adjustment if the consolidated net asset value of the TRC Group at the Completion date exceeds or falls short of an agreed target amount of £9.0m.
- (ii) The conditional consideration payment:
 - Up to a further £20.0m of conditional consideration is payable, in two instalments, shortly after 31 December 2011 and 30 June 2012, and is contingent on the TRC Group achieving certain financial targets at each of these dates;
 - The first instalment is a variable amount dependent on the Run-rate Earnings Before Interest, Taxation, Depreciation and Amortisation (Run-rate EBITDA) on an annualised basis as at 31 December 2011. This instalment becomes payable if the December 2011 Run-rate EBITDA exceeds £12.5m and the amount payable increases on a straight-line basis from zero to a maximum of £10.0m, which is payable if the December 2011 Run-rate EBITDA equals or exceeds £15.0m;

15. Acquisition of subsidiaries continued

- The second instalment varies according to the Run-rate EBITDA on an annualised basis as at 30 June 2012. This instalment becomes payable if the June 2012 Run-rate EBITDA exceeds £15.0m and the amount payable increases on a straight-line basis from zero to a maximum of £10.0m, which is payable if the June 2012 Run-rate EBITDA equals or exceeds £17.0m; and
- The conditional consideration payment, if payable, will be satisfied by the issue of a variable number of Ordinary Shares or, in certain limited circumstances, the issue of bank guaranteed loan notes by F&C.

F&C funded the cash consideration for the acquisition through a combination of the £14.2m net proceeds of a non-pre-emptive cash placing of F&C Ordinary Shares carried out on 28 April 2010, a £15m acquisition loan facility and existing cash resources.

In addition, as a condition of the acquisition, two new share-based payment agreements were established to retain and incentivise TRC Group employees: TRC Management Retention Plan and the TRC Management Incentive Plan. Details of these schemes are disclosed in notes 26(e) and (f).

The fair value of consideration paid by the Group for its 100% holding in Thames River Capital Group Limited was as follows:

	£m
Initial consideration – cash	33.6
Estimated additional cash consideration payable as a result of TRC net assets exceeding target net assets	7.5
Estimated fair value of first instalment of conditional consideration	5.0
Estimated fair value of second instalment of conditional consideration	2.5
Fair value of consideration paid for 100% of TRC Group	48.6

FCAM also incurred £7.5m of acquisition expenses relating to the legal, accounting and other professional advisor fees associated with the transaction (£7.2m of these have been capitalised in the Company Financial Statements, as shown in note 4 on page 131). These expenses are treated as exceptional costs, as explained in note 6(a)(viii).

The provisional fair values of assets and liabilities acquired at Completion were as follows:

	Book value £m	Accounting policy alignment £m	Acquired intangibles £m	Fair value adjustments £m	Provisional fair value to the Group at acquisition, as at 31 December 2010 £m
Non-current assets:					
Property, plant and equipment	1.7	–	–	–	1.7
Intangible assets:					
– management contracts	–	–	23.0	–	23.0
– software and licences	0.5	–	–	–	0.5
Deferred acquisition costs	–	0.1	–	–	0.1
Deferred tax assets	0.6	0.1	–	0.1	0.8
Current assets:					
Financial investments	1.1	–	–	0.8	1.9
Deferred acquisition costs	–	0.1	–	–	0.1
Trade and other receivables*	13.3	–	–	–	13.3
Cash and cash equivalents	27.2	–	–	–	27.2
Non-current liabilities:					
Provisions	(0.1)	–	–	(0.1)	(0.2)
Employee benefits	(1.1)	–	–	–	(1.1)
Deferred income	–	(0.4)	–	–	(0.4)
Deferred tax liabilities	–	–	(6.4)	–	(6.4)
Current liabilities:					
Trade and other payables	(17.6)	(0.1)	–	–	(17.7)
Employee benefits	(6.3)	–	–	0.3	(6.0)
Deferred income	–	(0.3)	–	–	(0.3)
Members' liabilities	(3.4)	–	–	–	(3.4)
Current tax payable	(1.0)	–	–	(0.3)	(1.3)
Estimated net assets acquired	14.9	(0.5)	16.6	0.8	31.8
Goodwill					16.8
Total consideration					48.6

* The gross contractual amounts receivable at Completion are £13.3m, which is also the estimate of contractual cash flows expected to be collected.

15. Acquisition of subsidiaries continued

The following adjustments were made to the book values of the assets and liabilities acquired:

- The key accounting policy alignment adjustments relate to the recognition of deferred income and deferred acquisition costs, together with associated tax adjustments, in accordance with IFRS requirements adopted by the F&C Group;
- An intangible asset of £23.0m, together with an associated deferred tax liability of £6.4m, has been recognised on acquisition, being the fair value of the management contracts acquired with TRC. Further details of intangible assets are given in note 13; and
- Fair value adjustments include:
 - the recognition of an investment of £0.8m, being the fair value of F&C Ordinary Shares acquired with TRC, which relate to employee benefit arrangements. On consolidation, this investment has been transferred to equity as the shares are required to be accounted for as 'own shares';
 - a reduction of £0.3m to the initial estimate of employee benefits included in the Completion Accounts; and
 - the tax effect of pre-tax adjustments.

The adjustments noted above reflect the Directors' best estimate of the necessary fair value adjustments to the net assets of the acquired entities as at 31 December 2010.

As at 31 December 2010, the fair values of identifiable assets acquired and liabilities assumed are considered by the Directors to be provisional. Any subsequent amendments to the fair values will be made after the TRC Completion Accounts review process has been completed.

No provisions for reorganisation or restructuring costs were included in the liabilities of the acquired entities. The net revenues and loss before tax attributable to the TRC Group for the four-month period between the date of acquisition and 31 December 2010 were £14.6m and £3.7m respectively. On an underlying basis excluding the Commutation expense and the costs associated with the TRC Management Retention and Incentive Plans, the pre-tax result was a profit of £2.8m.

As a pre-condition of the acquisition agreements, a group restructuring involving the entities being acquired by the F&C Group was completed in advance of the acquisition. This restructuring was required as the Group was not acquiring Nevsky Holdings Limited or TRC UK's interest in Nevsky Capital LLP, as outlined in the Circular issued to shareholders in respect of this transaction. As a result, the pre-acquisition results of the acquired entities would have differed materially from the post-acquisition results of TRC entities included within the F&C Group results. Therefore, it is not considered possible to determine what the F&C Group results would have been had the acquisition completed on 1 January 2010.

The value of goodwill arising on acquisition includes the value of the investment management teams acquired and the value of future business flows that the distribution capability of TRC is expected to generate. No tax deduction is expected to be available in respect of the goodwill arising on acquisition.

Commutation arrangements

The Divisional Members of Investment Teams have entered into put and call options which, if exercised, will transfer value to F&C by way of variation of the entitlements to the allocation of management fee profits (as defined in the underlying legal agreements) and capital profits in the respective LLP. The exercise of these options will increase TRC UK's share of the management fee profits of the respective Investment Teams by up to 20%.

These options are exercisable:

- 18 months after Completion:
At the option of the Investment Teams, TRC UK will purchase an additional 10% of the management fee profits of each Investment Team. The option for Investment Teams to exercise this put option is conditional on that team's respective net fund flows being positive for the twelve months preceding the option exercise period.
- 36 months after Completion:
FCAM has a call option to purchase, through TRC UK, an additional 20% of the management fee profits of each of the Investment Teams. The level of 20% is reduced by the percentage of any profits which have already been commuted at an earlier date.

The 18/36 months options to acquire such management fee profits may be deferred for a period of twelve months if the F&C EBITDA Multiple, which is one of the components used to quantify the Commutation consideration, is less than five.

15. Acquisition of subsidiaries continued

The Commutation consideration may be satisfied in two tranches, at F&C's sole discretion, by:

- The allotment and issue at the relevant Commutation completion date to each Divisional Member of such number of F&C Shares as shall have a value equal to 50% of the consideration, or the payment to the Divisional Members of 50% of the consideration in cash at the relevant Commutation completion date; and
- The allotment and issue at the relevant Commutation completion date to a Nominee of such number of F&C Shares as shall have a value equal to 50% of the consideration (Deferred Commutation Shares), or in certain circumstances the payment of 50% of the consideration in cash on the date falling 24 months after the relevant Commutation completion date. Deferred Commutation Shares shall be released by the Nominee 24 months after the Commutation completion date, provided the Member continues to provide services to the respective LLP or has ceased to do so in certain "good leaver" circumstances.

At Completion, two Divisions entered into an initial 10% Commutation, resulting in TRC UK obtaining a further 10% of the related management fee profits in those Investment Teams. The aggregate consideration payable in respect of this initial Commutation of profits was satisfied by: a cash payment of £1.4m; the issue of 3,042,999 Ordinary Shares and the issue of 3,042,997 Deferred Commutation Shares. The aggregate fair value of the Ordinary Share capital and share premium arising on the issue of these Shares was £3.8m. The corresponding charge in respect of these has been recognised in the own share reserve, a separate component of retained earnings, in accordance with the treatment of new shares issued to satisfy share-based payment arrangements.

Under IFRS the share element of these Commutation arrangements requires to be accounted for as a share-based payment. Further details are given in note 26(g). The cash payment has been expensed and is included within the Commutation expenses outlined in note 6(a)(ii).

(b) 2011 – Acquisition of Thames River Capital Group (update)

The fair value of consideration paid by the Group as disclosed in 2010 has been revised as follows:

- The additional cash consideration paid as a result of TRC net assets exceeding target net assets was £7.4m, compared to £7.5m as estimated in the 2010 Financial Statements. Accordingly, £0.1m has been released to the Income Statement.
- The fair values of both the first and second instalments of conditional consideration have been assessed as zero, as the Run-rate EBITDA target at 31 December 2011 was not achieved and the 30 June 2012 target is not expected to be achieved. Therefore, the total conditional consideration of £7.5m has been released to the Income Statement.

In accordance with IFRS, the release of both elements of consideration have been shown as exceptional income (as disclosed in note 6(c)) in the Income Statement.

The fair values of assets and liabilities acquired at Completion have remained unchanged from those disclosed in 2010.

(c) Acquisition of F&C Group (Holdings) Limited

Following the review of the Completion Accounts and subsequent fair value adjustments to the purchase consideration for the acquisition of F&C Group (Holdings) Limited on 11 October 2004, there is an estimated further consideration of £0.7m payable to Achmea B.V. (formerly Eureka B.V.) at 31 December 2011 (31 December 2010: £0.7m).

16. Deferred acquisition costs

	2011 £m	2010 £m
At 1 January	8.8	9.0
Fair value of additions arising on acquisition of TRC	–	0.2
Costs deferred in the year	1.1	2.4
Amortisation in the year	(2.8)	(2.8)
At 31 December	7.1	8.8

	31 December 2011 £m	31 December 2010 £m
Split as follows:		
Non-current assets	4.7	6.0
Current assets	2.4	2.8
	7.1	8.8

Deferred acquisition costs represent the commission paid to gain new asset inflows into open-ended funds. These costs are amortised over the expected terms of the contracts, in line with the initial fees received from investors, as disclosed in note 27.

17. Deferred tax assets and liabilities

(a) Recognised deferred assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2011			31 December 2010		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Employee benefits*	6.9	–	6.9	8.3	–	8.3
Share-based payments	11.1	–	11.1	12.8	–	12.8
Unused tax losses	5.5	–	5.5	4.2	–	4.2
Property, plant and equipment	2.7	–	2.7	2.9	–	2.9
Receivables, payables and provisions	2.1	–	2.1	2.7	–	2.7
Intangible assets – management contracts	–	(32.1)	(32.1)	–	(47.3)	(47.3)
Unrealised fair value gains on available for sale assets	–	(0.3)	(0.3)	–	(0.8)	(0.8)
Net deferred tax assets/(liabilities)	28.3	(32.4)	(4.1)	30.9	(48.1)	(17.2)

* Includes £5.1m (31 December 2010: £7.3m) relating to deferred tax on defined benefit pension deficit.

Based on Board-approved budgets and forecasts, the Directors believe that it is appropriate to recognise deferred tax assets at the reporting date because it is considered probable that there will be suitable taxable profits from which the underlying temporary differences can be deducted.

(b) Movement in temporary differences during the year

	1 January 2011 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	Acquired in year £m	31 December 2011 £m
Employee benefits	8.3	(0.4)	(0.9)	(0.1)	–	6.9
Share-based payments	12.8	(1.7)	–	–	–	11.1
Unused tax losses	4.2	1.3	–	–	–	5.5
Property, plant and equipment	2.9	(0.2)	–	–	–	2.7
Receivables, payables and provisions	2.7	(0.5)	(0.1)	–	–	2.1
Intangible assets – management contracts	(47.3)	14.9	–	0.3	–	(32.1)
Unrealised fair value gains on available for sale assets	(0.8)	–	0.5	–	–	(0.3)
	(17.2)	13.4	(0.5)	0.2	–	(4.1)

	1 January 2010 £m	Recognised in income £m	Recognised in equity £m	Revaluation in year £m	Acquired in year £m	31 December 2010 £m
Employee benefits	15.3	(4.2)	(3.2)	(0.1)	0.5	8.3
Share-based payments	12.4	0.4	–	–	–	12.8
Unused tax losses	0.6	3.6	–	–	–	4.2
Property, plant and equipment	2.6	0.1	–	–	0.2	2.9
Receivables, payables & provisions	3.4	(0.8)	–	–	0.1	2.7
Intangible assets – management contracts	(57.7)	15.8	–	1.0	(6.4)	(47.3)
Unrealised fair value gains on available for sale assets	(0.6)	–	(0.3)	0.1	–	(0.8)
	(24.0)	14.9	(3.5)	1.0	(5.6)	(17.2)

(c) Unrecognised deferred tax assets and liabilities

At 31 December 2011 the Group has unrecognised tax losses of £0.3m (31 December 2010: £0.3m) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they cannot be used to offset taxable profits elsewhere in the Group, and they have arisen in companies that have not reported taxable profits for some time.

18. Financial instruments

(a) Analysis of assets and liabilities at the reporting date

Financial investments held in relation to the activities of the Group's insurance subsidiary have been classified as fair value through profit or loss within current assets.

Stocks of units and shares are held in relation to fund management activities and are classified as held for trading within current assets.

Financial investments included within non-current assets are classified as available for sale and are carried at fair value (or at amortised cost if fair value cannot be measured reliably). Other loans and receivables included within non-current assets are carried at amortised cost.

(i) Designated as fair value through profit or loss

	Notes	31 December 2011 £m	31 December 2010 £m
Financial investments in respect of unit-linked contracts	(1)	447.8	538.8
Other financial investments	(2)	6.6	9.9
		454.4	548.7

(1) Financial investments in respect of unit-linked contracts

	31 December 2011 £m	31 December 2010 £m
Equity securities:		
Listed	116.0	232.4
OEICs and unit trusts	124.7	106.9
Total equity securities	240.7	339.3
Debt and fixed income securities:		
Government bonds	46.8	59.2
Other listed fixed interest securities	80.4	87.2
Index-linked gilts	69.7	42.8
Participation in pooled investments	10.2	10.3
Total debt and fixed income securities	207.1	199.5
Total unit-linked financial investments designated as fair value through profit or loss	447.8	538.8

Financial instruments relating to unit-linked contracts

The Group's insurance subsidiary, F&C Managed Pension Funds Limited, provides unit-linked pension wrappers. From F&C's perspective, the risks and rewards of managing these assets are the same as other assets under management, as the financial risks and rewards attributable to the assets invested fall to be borne by, or to the benefit of, the Group's clients. Hence, while a number of significant financial instruments are recognised in the Statement of Financial Position in respect of this subsidiary, the key risk to the Group is the impact on the level of management fees which are earned from this entity and which are directly affected by the underlying value of policyholder assets. While F&C Managed Pension Funds Limited has some insurance risks, these risks are fully reinsured, thereby negating any net insurance risk to the Group's equity holders.

The amounts included in the Statement of Financial Position in respect of assets and liabilities held within unit-linked funds are as follows:

	31 December 2011 £m	31 December 2010 £m
Fair value through profit or loss:		
Financial investments	447.8	538.8
Loans and receivables:		
Deferred acquisition costs	0.1	0.1
Trade and other receivables	0.1	0.1
Payables:		
Trade and other payables	(0.3)	–
Cash and cash equivalents*	25.1	20.2
Total unit-linked assets less liabilities	472.8	559.2

* This does not include £3.0m of non-linked policyholders' cash (31 December 2010: £3.2m).

These unit-linked assets are matched by the associated investment contract liabilities disclosed in note 29.

18. Financial instruments continued**(2) Other financial investments**

	Note	31 December 2011 £m	31 December 2010 £m
Purchased Equity Plan	26(h)(ii)	1.5	4.0
NIC hedge		2.4	2.6
Bonus – investments		1.0	1.8
TRC Employee Benefit Trust assets		1.1	1.2
Mutual funds		0.3	–
Corporate bonds		0.3	0.3
		6.6	9.9

The 'Purchased Equity Plan' represents investments held by an Employee Benefit Trust in F&C funds for the purpose of future settlement of Purchased Equity Plan awards. A corresponding liability is recognised over the vesting period.

The 'NIC hedge' represents an investment in equities and other assets made via an Employee Benefit Trust for the purpose of funding future national insurance contributions (NIC) payments on legacy employee share plans. The provision for the NIC liability is separately recognised.

'Bonus – investments' represent investments in managed funds for the purpose of future settlement of bonus awards. The liability for these bonuses is separately recognised.

'TRC Employee Benefit Trust assets' represents investments held by an Employee Benefit Trust in TRC funds for the purpose of future settlement of TRC bonus awards. A corresponding liability is recognised in employee benefit liabilities.

'Mutual funds' represents investments in mainly fixed interest funds.

'Corporate bonds' represents an investment in corporate bonds held by F&C Managed Pension Funds Limited. The corporate bonds have the following maturity dates:

Maturity date	31 December 2011 £m	31 December 2010 £m
2014	0.3	0.3

(ii) Designated as held for trading

	31 December 2011 £m	31 December 2010 £m
Stock of units and shares	0.9	0.1

The Group holds a stock of units and shares in respect of its OEIC and unit trust business. This stock of units and shares is commonly referred to as the 'Manager's Box'. The Group's stock of units and shares is valued using quoted market values. The Group is therefore exposed to market value movements in the value of these assets.

(iii) Designated as loans and receivables

	31 December 2011 £m	31 December 2010 £m
Cash and cash equivalents	225.0	202.2
Trade and other receivables:		
Trade debtors	13.3	21.5
Accrued income	29.0	38.9
Other debtors	4.8	10.8
OEIC and unit-trust debtors	29.5	81.2
Amounts owed by Achmea Group*	–	1.4
Amounts owed by TRC related party entities	0.6	0.7
Amounts owed by F&C REIT related party entities	0.1	0.1
	302.3	356.8

* As the Achmea Group ceased to be a related party during 2011, these balances are now included within other debtors at 31 December 2011.

18. Financial instruments continued**(b) Fair values****(i) Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by category of valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2011, the Group held the following financial instruments measured at fair value:

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2011 £m
Assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in respect of unit-linked contracts	396.2	51.2	0.4	447.8
Other financial investments	1.8	4.6	0.2	6.6
Classified as held for trading:				
Stock of units and shares	0.9	–	–	0.9
Available for sale financial assets:				
Unquoted investments	–	–	1.7	1.7
	398.9	55.8	2.3	457.0

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2011 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss:				
F&C REIT put options	–	–	(45.3)	(45.3)
Investment contract liabilities	–	(472.8)	–	(472.8)
	–	(472.8)	(45.3)	(518.1)

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2010 £m
Assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in respect of unit-linked contracts	491.4	46.0	1.4	538.8
Other financial investments	4.6	5.1	0.2	9.9
Classified as held for trading:				
Stock of units and shares	0.1	–	–	0.1
Available for sale financial assets:				
Unquoted investments	–	–	3.5	3.5
	496.1	51.1	5.1	552.3

	Level 1 £m	Level 2 £m	Level 3 £m	31 December 2010 £m
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss:				
F&C REIT put options	–	–	(54.0)	(54.0)
Investment contract liabilities	–	(559.2)	–	(559.2)
	–	(559.2)	(54.0)	(613.2)

18. Financial instruments continued**Level 3 assets/(liabilities) measured at fair value**

	Financial assets at FVTPL		Available for sale financial assets	Financial liabilities at FVTPL	Total £m
	Financial investments in respect of unit-linked contracts £m	Other financial investments £m	Unquoted investments £m	F&C REIT put options £m	
Fair value movements					
At 1 January 2010	3.5	0.2	2.2	(60.4)	(54.5)
Total gains or losses:					
In profit or loss	0.4	–	–	6.4	6.8
In other comprehensive income	–	–	1.3	–	1.3
Purchases	1.4	–	–	–	1.4
Settlements	(0.7)	–	–	–	(0.7)
Transfers out of level 3*	(3.2)	–	–	–	(3.2)
At 31 December 2010	1.4	0.2	3.5	(54.0)	(48.9)
Total gains or losses:					
In profit or loss	(0.2)	–	(3.3)	8.7	5.2
In other comprehensive income	–	–	1.5	–	1.5
Settlements	(0.6)	–	–	–	(0.6)
Transfers out of level 3*	(0.2)	–	–	–	(0.2)
At 31 December 2011	0.4	0.2	1.7	(45.3)	(43.0)

* Transfers out of level 3 resulted from investments receiving an active market price during the year.

Total gains or losses included in the Income Statement for the year:**2011**

Net gains and investment income on unit-linked assets	(0.2)	–	–	–	(0.2)
Finance revenue	–	–	3.3	–	3.3
F&C REIT put option fair value gain	–	–	–	8.7	8.7
	(0.2)	–	3.3	8.7	11.8

2010

Net losses and investment income on unit-linked assets	0.4	–	–	–	0.4
F&C REIT put option fair value gain	–	–	–	6.4	6.4
	0.4	–	–	6.4	6.8

The gains or losses included in profit or loss for the year were all in respect of assets or liabilities held at the reporting date.

Sensitivities for level 3

While the Group believes that its estimates of fair value are appropriate, the use of different assumptions could lead to different measurements of fair value. Potential changes in the assumptions used in the valuation of level 3 financial assets are not considered to have a material impact on the Income Statement. In respect of level 3 financial liabilities changing one or more of the unobservable inputs to reasonably possible alternative assumptions would have the following effects:

	Effect on profit or loss		Effect on other comprehensive income	
	Favourable £m	(Unfavourable) £m	Favourable £m	(Unfavourable) £m
At 31 December 2011				
Available for sale financial assets: Unquoted investments	–	–	0.2	(0.2)
Financial liabilities at FVTPL: F&C REIT put options	4.7	(3.4)	–	–
At 31 December 2010				
Available for sale financial assets: Unquoted investments	–	–	0.3	(0.3)
Financial liabilities at FVTPL: F&C REIT put options	5.0	(4.6)	–	–

The F&C REIT put option sensitivities were derived from reasonable changes to the assumptions, as disclosed in note 28, on the following unobservable inputs:

- Recurring discount rates +/- 1%
- Weightings of 2011 results +/- 10%
- Recurring EBITDA multiple +/- 1x
- Flexing the relative weightings of the 3 valuation methodologies +/- 10%

18. Financial instruments continued

(ii) Fair value comparisons

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments.

	Carrying amount		Fair value	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	£m	£m	£m	£m
Financial assets				
Financial investments: available for sale	1.7	3.5	1.7	3.5
Financial investments: fair value through profit or loss	454.4	548.7	454.4	548.7
Held for trading: stock of units and shares	0.9	0.1	0.9	0.1
Financial liabilities				
Interest-bearing loans and borrowings:				
Fixed/Floating Rate Subordinated Notes 2016/2026	(124.4)	(124.4)	(80.5)	(92.0)
Guaranteed Fixed Rate Loan Notes 2016	(149.4)	(149.3)	(154.0)	(154.0)
Other financial liabilities:				
F&C REIT put options	(45.3)	(54.0)	(45.3)	(54.0)
Investment contract liabilities	(472.8)	(559.2)	(472.8)	(559.2)

The fair values of short-term 'trade and other receivables', 'cash and cash equivalents' and 'trade and other payables' have been excluded from the above table as their carrying amounts are a reasonable approximation of their fair value.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

Securities

The fair value of listed investments is based on quoted bid market prices at the reporting date without any deduction for transaction costs. The fair value of unlisted investments has been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and in accordance with the underlying limited partnership agreements.

Interest-bearing loans and borrowings

The fair value of the Subordinated Notes and Guaranteed Loan Notes is based on a quoted market price at the reporting date.

Unquoted investments

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate for a similar instrument at the reporting date. Where other pricing models are used, inputs are based on market-related data at the reporting date.

Put options

The fair value is based on an external valuation of the business, as detailed in note 28.

19. Reinsurance assets

	31 December 2011	31 December 2010
	£m	£m
Reinsurers' share of insurance contract liabilities	2.0	2.0
Total reinsurance assets – current assets	2.0	2.0

20. Trade and other receivables

	31 December 2011 £m	31 December 2010 £m
Non-current:		
Other debtors	1.0	0.4
Prepayments	0.1	0.1
Amounts owed by Achmea Group*	–	1.4
Accrued income	–	0.1
	1.1	2.0
Current:		
Trade debtors	13.3	21.5
Accrued income	29.0	38.8
OEIC and unit trust debtors	29.5	81.2
Other debtors	3.8	10.4
Prepayments	7.6	8.7
Amounts owed by F&C REIT related party entities	0.1	0.1
Amounts owed by TRC related party entities	0.6	0.7
VAT recoverable	–	1.2
	83.9	162.6

* As the Achmea Group ceased to be a related party during 2011, these balances are now included within other debtors at 31 December 2011.

Trade debtors are non-interest bearing and are generally receivable within 30 days.

21. Cash and cash equivalents

	31 December 2011 £m	31 December 2010 £m
Shareholders:		
Cash at bank and in hand	30.4	29.7
Short-term deposits	166.5	149.1
	196.9	178.8
Policyholders:		
Cash at bank and in hand	3.2	5.2
Short-term deposits	24.9	18.2
	28.1	23.4
Total cash and cash equivalents	225.0	202.2

Cash and cash equivalents are held by the Group for the purpose of meeting short-term cash commitments rather than for investment or other purposes. All short-term deposits are readily convertible to a known amount of cash and are not subject to significant risk of changes in value.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are generally made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents at 31 December 2011 is £225.0m (31 December 2010: £202.2m).

Restrictions on use of cash

The policyholders' cash is not available for general use by the Group. These funds are held on behalf of policyholders of unit-linked insurance contracts which are included in the Statement of Financial Position.

22. Interest-bearing loans and borrowings

The contractual terms of the Group's interest-bearing loans and borrowings are as follows:

	31 December 2011 £m	31 December 2010 £m
Fixed/Floating Rate Subordinated Notes 2016/2026	124.4	124.4
Interest rate of 6.75% per annum until 19 December 2016, payable annually in arrears. Issuer has the option to extend the notes beyond this date at a rate of 2.69% above three-month LIBOR until 19 December 2026, payable quarterly in arrears.		
Guaranteed Fixed Rate Loan Notes 2016	149.4	149.3
Interest rate of 9.0% per annum until 19 December 2016, payable annually in arrears.		
	273.8	273.7

	31 December 2011 £m	31 December 2010 £m
Repayment periods		
Amounts repayable:		
In one year or less, or on demand	–	–
In more than one year but not more than two years	–	–
In more than two years but not more than five years*	273.8	–
In more than five years	–	273.7
	273.8	273.7

* Assumes Fixed/Floating Rate Subordinated Notes are not extended beyond 2016.

Additional information about the Group's exposure to interest rate risk is provided in note 37.

Borrowing facilities

The Group has borrowing facilities available to it. The undrawn committed facilities available at the year end are as follows:

	31 December 2011 £m	31 December 2010 £m
Expiring in one year or less:		
Revolving credit facility	20.0	20.0
Bank overdraft facilities	2.0	2.0
	22.0	22.0

Prior to the acquisition of TRC in 2010, the Group entered into a facilities agreement with HSBC to provide two lines of credit:

- a £15.0m bridging facility for the acquisition of TRC; and
- a £20.0m revolving credit facility available for general corporate and working capital purposes.

The £15.0m facility was utilised to partially fund the initial cash consideration for the purchase of TRC and was repaid shortly thereafter following the issue of a further £20.0m of the existing 9% Guaranteed Fixed Rate Notes in September 2010.

The revolving credit facility expired on 29 February 2012 and had not been utilised.

23. Trade and other payables

	31 December 2011 £m	31 December 2010 £m
Non-current:		
Accruals	2.9	2.0
Other creditors*	4.0	10.1
	6.9	12.1
Current:		
Trade creditors†	3.7	5.2
Amounts owed to Achmea Group§	–	2.0
VAT payable	0.9	–
Accruals	18.0	25.1
OEIC and unit trust creditors	27.8	80.1
Other creditors*	21.3	25.8
Amounts owed to F&C REIT related party entities	–	0.3
	71.7	138.5

* At 31 December 2010, other creditors includes £7.5m current and £7.5m non-current of estimated consideration payable in respect of the TRC acquisition.

† Trade creditors are non-interest bearing and are settled in accordance with the individual contractual arrangements.

§ As the Achmea Group ceased to be a related party during 2011, the balances are now included within other creditors at 31 December 2011.

24. Provisions

	Onerous premises contracts £m	NIC on share schemes £m	Long- term sickness £m	Guaranteed product £m	Long- term service award £m	F&C Partners litigation £m	Total £m
At 1 January 2010	8.4	5.6	2.0	0.5	0.1	2.4	19.0
Fair value of provisions on acquisition of TRC	–	0.2	–	–	–	–	0.2
Provided during the year	0.3	2.1	–	–	–	–	2.4
Utilised during the year	(1.7)	(1.3)	(0.2)	–	–	–	(3.2)
Released during the year	(0.4)	–	(0.8)	(0.1)	–	–	(1.3)
At 31 December 2010	6.6	6.6	1.0	0.4	0.1	2.4	17.1
Provided during the year	1.3	0.9	0.2	–	0.1	9.1	11.6
Utilised during the year	(1.8)	(1.3)	(0.2)	–	–	(9.5)	(12.8)
Released during the year	–	(0.1)	–	–	–	–	(0.1)
At 31 December 2011	6.1	6.1	1.0	0.4	0.2	2.0	15.8
At 31 December 2011							
Non-current liabilities	4.1	1.9	0.8	0.3	0.2	–	7.3
Current liabilities	2.0	4.2	0.2	0.1	–	2.0	8.5
At 31 December 2010							
Non-current liabilities	4.9	2.0	0.8	0.3	0.1	–	8.1
Current liabilities	1.7	4.6	0.2	0.1	–	2.4	9.0

Onerous premises contracts

The Group holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied or are partially occupied by the Group. Provision has been made for the residual lease commitments where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to nine years, although a significant element of this provision relates to lease incentive arrangements and is expected to be utilised within two years.

Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases, and the majority of sub-leases, are for minimum guaranteed rentals. One sub-lease involves the possible receipt of contingent rent. Any contingent rent received in excess of the anticipated amount is recognised as income during the period. The provision is subject to uncertainties over time, including market rent reviews and break options within the lease arrangements. In addition, exposure could exist if an existing tenant defaulted or went into liquidation or administration.

24. Provisions continued

NIC on share schemes

The provision for national insurance contributions (NIC) on share schemes represents the potential employer's NIC liabilities in respect of a number of share-based payment schemes operated by the Group. The provision is subject to uncertainties in respect of the extent to which performance conditions are met, movements in the Company's share price, the extent to which awards are forfeited and, where eligible, the timing of when employees choose to exercise options. The current element of the provision for NIC on share schemes relates to awards which are expected to vest within one year. At 31 December 2011, £2.4m (31 December 2010: £2.6m) of financial investments were held by the Group to partially fund the NIC liability on the Deferred Investment Plan and Deferred Investment Option Plan. This is disclosed in note 18(a)(i)(2).

Long-term sickness

The Group has long-term sickness insurance arrangements which cover the cost of absence from work of all current employees. However, the cost of employees who went on long-term absence prior to these arrangements being established are self-insured by the Group. The provision represents the expected present value of income protection payments due to these individuals.

This provision has been quantified on the assumption that all employees currently on long-term sick leave do not return to the employment of the Group. The discount rate and salary growth assumptions used in each year are identical to those used for the purposes of determining UK defined benefit pension obligations.

Guaranteed product

The provision for the guaranteed product represents the actuarially assessed cost of meeting potential obligations under certain investment products which have a guaranteed payout in the event of death of the investor. This provision is subject to uncertainties in respect of movements in market levels and the mortality rates of investors. The underlying investment plan was closed to new investors during 2004.

Long-term service award

This provision represents the obligation in respect of long-term service benefits to which some employees are entitled, including incremental holiday entitlement and long-term service awards.

F&C Partners litigation

On 14 July 2011 a judgment was handed down by the High Court in respect of litigation between the Group and the two individual founder members of F&C Partners LLP (Partners), the Group's fund of hedge funds business which is now in run-off. As disclosed in the Group's last two Annual Reports and Financial Statements, the Group had sought a declaration as to the validity of the exercise of put options by the individual founder members to sell their non-controlling interest in Partners to the Group for a sum of approximately £7.8m. The individual founder members had sought an order that the Group buy out their interest, either at the put option price or at a price determined by the Court under section 996 of the Companies Act 2006 on the grounds that the affairs of Partners had been conducted in a manner which was unfairly prejudicial to the individual founder members' interests.

The Court held that the put options were validly exercised by the individual founder members and that their interests were unfairly prejudiced with the result that the Group was required to buy out the relevant interests which it did, on 7 October 2011, for just over £7.8m.

On 28 October 2011, the Court handed down a judgment in respect of the costs and interest of the litigation and ordered that F&C pay to the founder members sums by way of interest and 70% of the founder members' legal costs. The amount of costs (and consequently interest) payable under the terms of the judgment is to be determined by the Court in due course, but the Board has been advised that it is likely to be in the region of £5m.

F&C has, however, applied to the Court of Appeal for permission to appeal the terms of the costs awarded and the Board has been advised by leading counsel that it is likely to be successful on that appeal. In that case, it is estimated that the total costs and interest payable to the founder members would be in the region of £3m.

In order to protect its position pending the appeal, F&C has made payments totalling some £2.7m to the founder members in respect of costs and interest, and has also recognised a withholding tax cost of £0.3m attributable to the interest paid.

As a result of the judgments outlined above, the payments already made and the tax cost recognised, the Directors have re-assessed their estimate of the provision held in respect of this matter, resulting in a total provision of £2.0m as at 31 December 2011 in respect of further amounts of interest and costs which could be payable.

24. Provisions continued

The following table analyses the payments and the associated movements in provisions:

	Note	Amounts recognised in Income Statement £m	Amounts recognised in Statement of Changes in Equity £m	Provision £m
Opening provision at 1 January 2011		–	–	2.4
Increase in provision during the year		7.6	1.5	9.1
Transfer of put option cost to equity and payment to founder members		(7.8)	7.8	(7.8)
Interest paid to founder members		–	–	(1.7)
Legal costs paid to founder members		–	1.4	–
F&C legal costs incurred		2.1	–	–
F&C Partners litigation expense recognised in Income Statement	6(a)(v)	1.9		
Consideration for NCI recognised in Statement of Changes in Equity			10.7	
Closing provision at 31 December 2011				2.0

The amounts recognised in the Statement of Changes in Equity represents the fair value of the consideration paid for the acquisition of the 40% non-controlling interest in F&C Partners LLP, which was acquired pursuant to the valid exercise of the Put Option, as outlined above. At 31 December 2011, £1.5m of this consideration (31 December 2010: £nil) is included within provisions and £0.4m (31 December 2010: £nil) has been recognised in other creditors.

25. Pension benefits

The Group operates defined benefit schemes in the United Kingdom, The Netherlands, the Republic of Ireland and participates in one in Portugal. The UK scheme is closed to new entrants. All new UK employees are eligible to benefit from defined contribution arrangements, which provide greater certainty over the future cost to the Group.

A former Chairman of the Group, Mr R W Jenkins, has a pension entitlement of £119,000 per annum, which commenced in January 2011. This pension will be indexed in line with the Retail Price Index on 1 January in each subsequent year. The Group has not earmarked any assets to date with respect to this liability.

The net pension deficit is recognised under non-current liabilities in the Statement of Financial Position and is stated gross of the related deferred tax asset.

The results of the latest full actuarial valuations were updated at 31 December 2011 by qualified independent actuaries.

The pension deficits of the Group are summarised in aggregate and by scheme as follows:

	Note	31 December 2011 £m	31 December 2010 £m
Aggregate			
Fair value of plan assets	25(d)	215.9	190.4
Benefit obligations	25(d)	(236.4)	(218.0)
Total pension deficit	25(d)	(20.5)	(27.6)
By scheme			
F&C Asset Management Pension Plan (FCAM Plan)		(10.3)	(17.5)
F&C Netherlands pension plan		(6.6)	(6.5)
F&C Ireland pension plan		(0.4)	(0.4)
F&C Portugal pension plan		–	(0.2)
R W Jenkins pension		(3.2)	(3.0)
Total pension deficit		(20.5)	(27.6)

Disclosure relating to the Group's defined benefit obligations

The information given in (a) to (d) below reflects the aggregate disclosures in respect of all Group defined benefit pension arrangements, except where otherwise indicated.

25. Pension benefits continued

(a) Plan assets and expected rates of return

Plan assets	31 December 2011		31 December 2010	
	£m	%	£m	%
LDI pools	67.5	31	50.4	26
Equity-linked bond funds	58.4	27	52.7	28
Equities	58.0	27	71.9	38
Property (including secured leases)	13.0	6	0.6	–
Insurance contracts	10.7	5	10.1	6
Cash	6.2	3	2.4	1
Corporate bonds	2.1	1	–	–
Government bonds	–	–	2.3	1
Total fair value of plan assets	215.9	100	190.4	100

Plan assets include £13.9m (31 December 2010: £31.2m) of underlying investments held by the Group pension schemes via transferable investment contracts with F&C Managed Pension Funds Limited, the Group's unit-linked pooled pension business. The plan assets do not include Ordinary Shares issued by the Company.

Expected long-term rates of return on UK plan assets	31 December	31 December
	2011	2010
LDI pools	3.10%	3.90%
Equity-linked bond funds	6.30%	7.00%
Equities	6.30%	7.00%
Property (including secured leases)	4.85% – 6.30%	7.00%
Insurance contracts	4.70%	7.00%
Cash	0.50%	0.50%

Basis used to determine the expected rate of return on plan assets

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk-free investments (primarily government bonds and swaps), the historical level of risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for the future returns of each asset class. The expected return for each asset class was then weighted, based on the actual asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio.

(b) Major assumptions used by schemes' actuaries in respect of benefit obligations

(i) Mortality assumptions

The mortality assumptions used for the main UK defined benefit scheme and the unfunded UK obligation are:

	31 December 2011	31 December 2010
Mortality table for males retiring in the future	S1NMA L MC min1% – 1	S1NMA L MC min1% – 1
Mortality table for females retiring in the future	S1NFA L MC min1% – 1	S1NFA L MC min1% – 1
Mortality table for current male pensioners	S1NMA L MC min1% – 1	S1NMA L MC min1% – 1
Mortality table for current female pensioners	S1NFA L MC min1% – 1	S1NFA L MC min1% – 1

The mortality assumptions for the overseas schemes are:

	31 December 2011	31 December 2010
F&C Netherlands	Prognosetafel 2010 – 2060 generational table	Prognosetafel 2010 – 2060 generational table
F&C Ireland	Compulsory Purchase Annuity Rates	Compulsory Purchase Annuity Rates
F&C Portugal	Males TV 73/77 (rated down 1 year) Females TV 88/90 (rated down 2 years)	Males TV 73/77 (rated down 1 year) Females TV 88/90 (rated down 2 years)

(ii) Impact of mortality assumptions

To demonstrate what these mortality assumptions mean in respect of the FCAM Plan, the expected ages at death of members retiring at age 60 are as follows:

	31 December 2011 Years	31 December 2010 Years
Expected age at death for a male retiring in the future at age 60, currently aged 40	91	90
Expected age at death for a female retiring in the future at age 60, currently aged 40	92	92
Expected age at death for a current male pensioner aged 60	89	89
Expected age at death for a current female pensioner aged 60	90	90

25. Pension benefits continued

(iii) Cost of annuities

The table below summarises the cost of providing annuities of £1 per annum (with associated death benefits and pension increases) for UK members currently aged 40, retiring at age 60, based on the assumptions used for the pension disclosures:

	31 December 2011	31 December 2010
	£	£
Male annuity	27.50	25.60
Female annuity	26.70	25.00

These rates assume a monthly payments model with a discount rate of 4.70% (2010: 5.30%). The rates also assume two-thirds of the members' benefit will be paid to the spouse; a five-year guarantee is provided; and pensions in excess of Guaranteed Minimum Pension will increase by 3.20% (2010: 3.35%) per annum.

(iv) Discount and growth assumptions

The range of assumptions used to determine benefit obligations are as follows:

	31 December 2011	31 December 2010
Discount rate	4.70% – 5.20%	5.30%
Rate of salary increase	2.00% – 4.00%	2.00% – 4.00%
Rate of price inflation (CPI)	2.60%	3.50%
Rate of inflation increase (RPI)	2.00% – 3.30%	2.00% – 3.50%

The range of assumptions used to determine net pension cost for the year are as follows:

	2011	2010
Discount rate	5.30%	5.50% – 5.70%
Weighted average expected long-term return on plan assets	4.91% – 6.04%	4.91% – 6.00%
Rate of salary increase	2.00% – 4.00%	2.00% – 4.00%
Rate of inflation increase (RPI)	2.00% – 3.50%	2.00% – 3.60%

(v) Sensitivities

An estimate of the sensitivities regarding the principal assumptions used to measure the schemes' liabilities are set out below:

Assumption	Change in assumption	Estimated impact on scheme liabilities
Inflation	Increase/decrease by 0.1%	Increase/decrease by 1.7%
Salaries	Increase/decrease by 0.1%	Increase/decrease by 0.1%
Pensions	Increase/decrease by 0.1%	Increase/decrease by 1.3%
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2.2%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 2.5%

(c) Profile of schemes' membership

The profile of the current membership of defined benefit arrangements in the Group is as follows:

	31 December 2011		31 December 2010	
	% of total membership	Average age	% of total membership	Average age
Active members	16%	44	17%	44
Deferred members	71%	44	70%	44
Pensioners	13%	66	13%	66
	100%		100%	

The profile of the liabilities of defined benefit arrangements throughout the Group is as follows:

	2011	2010
	£m	£m
Active members	52.6	52.7
Deferred members	112.3	105.0
Pensioners	71.5	60.3
Benefit obligations at 31 December	236.4	218.0

25. Pension benefits continued

(d) Aggregate disclosures

	2011 £m	2010 £m
Change in benefit obligations:		
Benefit obligations at 1 January	218.0	204.2
Foreign exchange movements	(0.6)	(0.7)
Current service cost	2.3	2.1
Past service costs*	0.7	0.6
Interest cost on pension obligations	11.5	11.3
Curtailment income†	–	(4.0)
Members' contributions	0.3	0.2
Actuarial losses	9.1	9.0
Benefits paid	(4.9)	(4.7)
Benefit obligations at 31 December	236.4	218.0

* The past service costs in both 2011 and 2010 relate to the augmentation of pension entitlements for certain employees.

† The Board and Trustees implemented changes to the UK FCAM Pension Plan during 2010. The changes capped future increases in pensionable salary for past and future service. These changes resulted in a one-off credit to the Income Statement. The curtailment income has been recognised as an exceptional item within exceptional employment income/(expenses) (see note 6(a)(i)). For future service the changes increased the normal pension age (unless additional employee contributions were paid) and reduced the level of pension increases applied.

	31 December 2011 £m	31 December 2010 £m
Analysis of defined benefit obligations:		
Plans that are wholly or partly funded	233.2	215.0
Obligation that is wholly unfunded	3.2	3.0
Benefit obligations at 31 December	236.4	218.0

	2011 £m	2010 £m
Change in plan assets:		
Fair value of plan assets at 1 January	190.4	157.5
Foreign exchange movements	(0.4)	(0.5)
Expected return on pension plan assets	11.5	9.5
Actuarial gains	12.4	19.4
Employer contributions	6.6	9.0
Member contributions	0.3	0.2
Benefits paid	(4.9)	(4.7)
Fair value of plan assets at 31 December	215.9	190.4

	31 December 2011 £m	31 December 2010 £m
Net pension deficit recognised	(20.5)	(27.6)

	2011 £m	2010 £m
Components of defined benefit pension expense/(income):		
Current service cost	2.3	2.1
Past service cost	0.7	0.6
Curtailment income	–	(4.0)
Interest cost on pension obligations	11.5	11.3
Expected return on pension plan assets	(11.5)	(9.5)
Total defined benefit pension expense recognised in the Income Statement	3.0	0.5

25. Pension benefits continued

Classification of defined benefit pension expense/(income) in the Income Statement:	Notes	2011 £m	2010 £m
Operating expenses	5	3.0	(1.3)
Finance revenue	7	(11.5)	(9.5)
Finance costs	8	11.5	11.3
Total defined benefit pension expense recognised in the Income Statement		3.0	0.5
		2011 £m	2010 £m
Net actuarial gains immediately recognised in the Statement of Comprehensive Income		3.3	10.4
The cumulative actuarial losses recognised in the Statement of Comprehensive Income		(31.0)	(34.3)
		2011 £m	2010 £m
Actual return on plan assets		23.9	28.9

Five year history

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Benefit obligations at 31 December	(236.4)	(218.0)	(204.2)	(167.9)	(177.4)
Fair value of plan assets at 31 December	215.9	190.4	157.5	146.1	150.6
Total pension deficit	(20.5)	(27.6)	(46.7)	(21.8)	(26.8)
Difference between expected and actual return on plan assets:					
Amount	12.4	19.4	4.2	(21.1)	(1.6)
Percentage of plan assets	6%	10%	3%	(14%)	(1%)
Experience (losses) and gains on benefit obligations:					
Amount	(0.3)	5.8	1.1	1.3	(3.4)
Percentage of benefit obligations	0%	3%	1%	1%	(2%)
Total gains and (losses):					
Amount	3.3	10.4	(27.2)	2.5	11.1
Percentage of benefit obligations	1%	5%	(13%)	1%	6%

(e) Pension schemes' details

(i) F&C Asset Management Pension Plan (FCAM Plan)

Date of last actuarial valuation	31 March 2010
Scheme Actuary	Mercer Limited
Method of valuation	Projected Unit
Market value of assets at last valuation date	£156.4m
Level of funding	88%

The FCAM Plan's assets, which are managed by F&C, are held under the control of the Trustees and are used to secure benefits for the members of the FCAM Plan and their dependants in accordance with the Trust Deed and Rules.

Trustee Board of the FCAM Plan

The appointment of Trustees is determined by the FCAM Plan's trust documentation. The Trustee Board currently consists of three employer-appointed Trustees, three member-selected Trustees and two independent Trustees, one of whom is currently the Chairman of the Trustee Board. Of the current employer-appointed and member-selected Trustees, four are employees of F&C and active members of the FCAM Plan, one is a deferred member and one is retired and receiving a pension from the FCAM Plan.

Relationship between F&C and the Trustees of the FCAM Plan

The FCAM Plan's assets are held in a separate Trustee-administered fund to meet long-term pension liabilities to past and present employees. The Trustees of the FCAM Plan are required to act in the best interests of the FCAM Plan's beneficiaries.

(ii) Other pension schemes

F&C Portugal

Certain employees in Portugal participate in the multi-employer scheme, Fundo de Pensoes do Grupo Banco Comercial Português. The assets and liabilities of the scheme are separately identifiable. There are no Trustees, and F&C Portugal controls the assets relating to the F&C members of the scheme. From 1 January 2011, this scheme has been integrated into the Social Security system and part of the employees' occupational pension benefits is funded through the Social Security system from that date. However, the scheme benefit structure and employees' total pensions have not changed.

25. Pension benefits continued

F&C Netherlands

The Plan in The Netherlands is financed via an insurance contract. There are no Trustees, but the Works Council participates in negotiations in respect of potential changes to the Plan.

F&C Ireland

The Group operates a defined benefit pension scheme in Ireland. There are currently four Trustees of this plan, all of whom are employees of F&C.

(f) Future funding requirements

FCAM Plan

A revised schedule of contributions was agreed in January 2011, under which the Group agreed to pay a minimum of 17.0% of Pensionable Salaries plus £3.0m per annum in respect of deficit recovery contributions, £0.5m per annum in respect of administrative expenses and any additional amounts required as a result of the asset underperformance guarantee. Further, to the extent that the Group repays any amount of its fixed or floating rate notes after 1 January 2011 then the Group shall pay, within one month of that repayment, a special contribution to reduce the deficit determined in the valuation at 31 March 2010 in the same proportion as the aggregate reduction in fixed or floating rate notes. If there is more than one such reduction then the special contributions necessary shall be computed taking into account the aggregate percentage reduction in fixed or floating rate notes since 1 January 2011 and the amount of any previous such special contribution paid. For the avoidance of doubt, a repayment does not include a repayment of the notes from the issue of a capital instrument specified for that purpose. The minimum estimated contribution expected to be paid into the Plan during 2012 is £5.5m (2011: £5.2m).

As the FCAM Plan is a closed scheme, under the projected unit method the current service cost will tend to increase as a percentage of pensionable salaries as the average age of members increases.

Non-UK schemes

The figures in the table below assume that contributions will continue to be paid to the overseas schemes at the level paid in 2011, with appropriate increases for future changes in salary assumptions.

Contributions to defined benefit schemes

Amounts paid into the Group's defined benefit schemes in the past two years and expected future payments over the next five years are as follows:

Contributions paid	£m
2010	9.0
2011	6.6
Expected future contributions	£m
2012	6.6
2013	5.9
2014	5.9
2015	5.9
2016	5.9

(g) Risk management

(i) FCAM Plan

The Trustees set general investment policy but delegate the responsibility for the selection of specific investments (other than investments in respect of members' voluntary contributions) to the investment manager. The Trustees regularly monitor the FCAM Plan's investments.

The Trustees seek advice from their investment advisor and believe they have sufficient skills and expertise to make investment decisions based on this advice.

The Trustees have set performance and risk targets for the investment manager. The performance objectives are long-term, and the Trustees monitor the investment manager on a regular basis in order to ensure that the scheme is on track to meet its long-term objectives.

The results of an asset-liability review undertaken alongside the 31 March 2010 actuarial valuation of the Plan have been used to assist the Trustees and the Group in managing volatility in the underlying investment performance and the risk of a significant increase in the FCAM Plan's deficit by providing information used to determine the FCAM Plan's investment strategy.

25. Pension benefits continued

Asset allocation

During the year, the Trustees, with the agreement of F&C, decided to further diversify the FCAM Plan's investment strategy by introducing an allocation to funds investing in secured property leases. In addition, the geographical allocation of the Plan's equity holdings was reviewed during the year, with a larger proportion being allocated to emerging markets. In previous periods, diversifying allocations to both UK and overseas equity-linked bond funds and an overseas private equity fund have been made. Previously the Trustees have implemented a Liability Driven Investment (LDI) approach to the investment strategy. Other allocations to alternative asset classes may be made in the future.

Interest rate and inflation risk

The LDI pools are intended to help provide a degree of matching to the liabilities of the FCAM Plan. Each pool comprises zero coupon derivatives with the same maturity as the expected cash flows of the scheme. Each pool has leveraged exposure of varying amounts to inflation and interest rates. The pools are valued using the market values of the underlying securities.

The equity-linked bond funds also provide a degree of matching to the liabilities but in addition retain an exposure to equity market movements.

Currency risk

In order to increase the diversification of the equity portfolio, the FCAM Plan invests in overseas assets. However, the FCAM Plan's liabilities are denominated entirely in Sterling and therefore there is a risk that the appreciation of Sterling against other currencies will reduce the return from overseas assets.

Operational risk

The investment managers do not directly hold any of the FCAM Plan's securities. These are held by an external custodian. The assets are ring-fenced from F&C's creditors and are therefore transferable.

(ii) Non-UK schemes

The plan in The Netherlands is financed via an insurance contract. The value of the plan assets is the value of the reserve which the insurance company holds to match guaranteed pension liabilities. These reserves are, in effect, fixed interest instruments, so provide a reasonable match to pension liabilities.

The plan in Ireland invests in pooled unitised funds, with returns reflecting the performance of the underlying assets.

The plan in Portugal is part of an industry-wide banking sector plan. Each participant company holds a share of the assets, which are invested using the same asset allocation as the overall plan assets. F&C Portugal is the asset manager for the overall scheme.

At 31 December 2011, the assets of both the F&C Portugal and F&C Ireland plans were invested in diversified portfolios that consisted primarily of debt and equity securities.

(h) Cost of defined contribution plans

	Note	2011 £m	2010 £m
Group personal pension plans		3.4	3.4
Other defined contribution schemes		0.1	0.5
Defined contribution pension expense	5	3.5	3.9

The Group had £0.4m of pension contributions outstanding as at 31 December 2011 (31 December 2010: £0.1m).

26. Share-based payments

The Group operates several share-based payment plans as part of its total employee compensation arrangements.

Summary

The total share-based payment expense is analysed as follows:

By Scheme:	Note	2011 £m	2010 £m
The Long-Term Remuneration Plan (deferred awards)		8.8	11.8
The Long-Term Remuneration Plan (restricted awards)		1.0	0.3
Executive Director Remuneration Plan (deferred awards)		0.6	1.5
F&C REIT variable non-controlling interests SBP		(4.8)	(0.3)
F&C REIT Long-Term Remuneration Plan		1.1	0.8
TRC Management Retention Plan		4.5	1.5
TRC Management Incentive Plan		(0.1)	0.1
TRC Commutation arrangements		5.7	4.8
Purchased Equity Plan (FCAM plc shares)		0.1	0.5
Purchased Equity Plan (F&C investment funds)		0.5	1.3
Deferred Share Awards		0.4	0.1
Share Save Scheme		–	0.2
Total share-based payment expense recognised in the Income Statement	5	17.8	22.6

The total expense recognised during the year in respect of share-based payment schemes is split as follows:

	2011 £m	2010 £m
Equity-settled	17.3	19.5
Cash-settled	0.5	3.1
Total share-based payment expense recognised in the Income Statement	17.8	22.6

	31 December 2011 £m	31 December 2010 £m
Total carrying amount of cash-settled liabilities	6.0	10.9

The details of each scheme are disclosed below.

Details of option pricing models and key assumptions used to obtain the fair value of services received, or the fair value of the equity instruments granted, have been disclosed only for awards granted during the year ended 31 December 2011. Details of awards granted in previous accounting periods are disclosed in the previous years' Financial Statements.

The fair value of services received in return for awards granted is measured by reference to the fair value of share awards granted.

The cash-settled element of the awards is based on dividends payable on the shares during the vesting period, being notionally re-invested in F&C Asset Management plc shares. Once the share awards vest, the value of the notional shares is paid to the employee in cash. The value of dividend payments has been separated from the equity-settled awards as these are settled in cash.

The cumulative grant expense for each award is "trued-up" during the vesting period and at the end of the vesting period, after allowing for actual forfeitures and, where applicable, the extent to which the performance criteria have been met.

The weighted average share price during 2011 was £0.74 (2010: £0.64).

The weighted average share price at exercise date during 2011 was £0.77 (2010: £0.65).

26. Share-based payments continued

The following tables summarise the inputs into the valuations used for awards granted and the fair values assigned, during the year ended 31 December 2011.

Deferred Awards

Award:	LTRP Deferred Share Awards
Award date	10 March 2011
Number of awards granted	15,437,379
Share price at grant date	82.35p
Exercise price	0.0p
Vesting period	3 years
Full term of award	3 years
Expected dividend yield (%)	4.27%
Expected volatility (%)	n/a
Risk-free interest rate (%) p.a.	n/a
Expected forfeiture rate (%)	0.0%
Fair value at measurement date (per award)	
– Equity	72.46p
– Cash	9.89p
Valuation basis	market price
Estimated vesting percentage at award date	n/a

LTRP Restricted Share Awards

Element of Award:	EPS	Investment Performance	Net New Business	TSR
Award date	4 May 2011	4 May 2011	4 May 2011	4 May 2011
Number of awards granted	937,421	937,421	937,421	937,421
Share price at grant date	77.8p	77.8p	77.8p	77.8p
Exercise price	0.0p	0.0p	0.0p	0.0p
Vesting period	3 years	3 years	3 years	3 years
Full term of award	3 years	3 years	3 years	3 years
Expected dividend yield (%)	3.9%	3.9%	3.9%	3.9%
Expected volatility (%)	n/a	n/a	n/a	58.0%
Risk-free interest rate (%) p.a.	n/a	n/a	n/a	1.52%
Expected forfeiture rate (%)	0.0%	0.0%	0.0%	0.0%
Fair value at measurement date (per award)				
– Equity	69.0p	69.0p	69.0p	50.2p
– Cash	8.8p	8.8p	8.8p	4.3p
Valuation basis	market price	market price	market price	Monte Carlo simulation model
Estimated vesting percentage at award date	64%	50%	67%	100%

F&C REIT Long-Term Remuneration Plan

Award:	2011 award
Award date	1 May 2011
Number of units in F&C REIT LLP granted	15,833.33 units
Value of unit at award date	£90.00 per unit
Vesting period	3 years
Full term of award	3 years
Expected forfeiture	0.0%
Model used	External valuation of F&C REIT LLP business

(a) The Long-Term Remuneration Plan (LTRP)

The LTRP is the primary long-term incentive arrangement of the Group. The LTRP rules allow both Deferred Share Awards and Restricted Share Awards to be made at the discretion of the Board.

26. Share-based payments continued

(i) Deferred Share Awards

The LTRP allows deferred awards to be granted to employees below Executive Director level, subject only to a time-vesting period of three years.

The number of Deferred Share Awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	39,371,737	28,769,100
Granted during the year	15,437,379	17,335,585
Exercised during the year	(10,697,991)	(5,243,031)
Forfeited during the year	(6,170,470)	(1,280,575)
Expired during the year	(983,387)	(209,342)
Outstanding at 31 December	36,957,268	39,371,737
Exercisable at 31 December	957,480	209,259

The awards exercisable at 31 December 2011 and 31 December 2010 relate to good leavers.

At 31 December 2011 the following LTRP Deferred Share Awards were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercise price
8 July 2009	10,979,123	8 July 2012	0.0p
7 April 2010	13,365,317	7 April 2013	0.0p
10 March 2011	12,612,828	10 March 2014	0.0p

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 1.4 years (31 December 2010: 1.6 years).

(ii) Restricted Share Awards

Ordinary Shares that are the subject of a Restricted Share Award under the LTRP will vest dependent upon achieving four specified performance conditions and conditions of continued service being met. The performance conditions applied to the LTRP are determined by the Board, are measured over a three-year performance period and comprise the following:

- 25% of the award comprises an underlying Earnings Per Share (EPS) condition;
- 25% of the award comprises a Total Shareholder Return (TSR) condition;
- 25% of the award comprises an Investment Performance condition; and
- 25% of the award comprises a Net New Business condition.

To the extent that any element of the award has not vested in accordance with the performance criteria detailed below it lapses immediately.

(1) The EPS element

The EPS condition is based on the amount by which the average annual percentage growth in underlying EPS exceeds the percentage increase in the Retail Price Index condition over the three-year performance period (EPS Outperformance Percentage).

The awards vest according to the following criteria:

EPS Outperformance Percentage	Percentage of award vesting
Less than 3%	0%
3%	25%
Equal to or greater than 11%	100%
Between 3% and 11%	Straight-line vesting between 25% and 100%

(2) The TSR element

The TSR condition compares the TSR of the Group over a three-year performance period (commencing on the award date) with a list of companies in a predetermined financial services comparator group. At the end of the performance period, the Group and each of the comparator companies are listed and ranked in accordance with their TSR over the performance period (TSR Position). The TSR measure reflects the movement in the value of shares plus any dividends declared during the relevant period.

The awards vest according to the following criteria:

TSR Position	Percentage of award vesting
Below median	0%
Median	25%
Upper quartile	100%
Between median and upper quartile	Straight-line vesting between 25% and 100%

26. Share-based payments continued

(3) The Investment Performance element

The Investment Performance condition is based on the Total Weighted Outperformance Percentage (25% of the one-year outperformance percentage and 75% of the three-year outperformance percentage) on investment management performance over a three-year period.

The awards vest according to the following criteria:

Total Weighted Outperformance Percentage	Percentage of award vesting
Equal to or less than 42%	0%
75% or more	100%
Between 42% and 75%	Straight-line vesting between 0% and 100%

(4) The Net New Business element

The Net New Business condition is based on a comparison of the actual versus the budgeted amount of net new business for the period (Net New Business Percentage). The budgeted net new business is determined on an annual basis by the Board. Performance is measured over a three-year period.

The awards vest according to the following criteria:

Net New Business Percentage	Percentage of award vesting
Equal to or less than 25%	0%
125% or more	100%
Between 25% and 125%	Straight-line vesting between 0% and 100%

The number of Restricted Share Awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	3,786,486	327,548
Granted during the year	3,749,683	3,786,486
Forfeited during the year	(250,637)	–
Expired during the year	(199,989)	(327,548)
Outstanding at 31 December	7,085,543	3,786,486

At 31 December 2011 the following LTRP restricted share awards were outstanding:

Grant date	No. of options outstanding	Earliest exercise date*	Exercise price
4 May 2010	3,786,486	4 May 2013	0.0p
4 May 2011	3,299,057	4 May 2014	0.0p

* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 1.8 years (31 December 2010: 2.3 years).

(b) The Executive Director Remuneration Plan (EDRP)

Any Executive Director of the Company is eligible to participate in the EDRP. The EDRP provides for the grant of two different forms of award, Deferred Share Awards and Restricted Share Awards. There were no outstanding Restricted Share Awards at either 31 December 2011 or 2010.

Deferred Share Awards

Awards vest at the end of a three-year period from grant date, subject to the continued employment of the participant within the Group. There are no performance criteria attached to the deferred shares and the vested shares transfer to the participant as soon as possible after vesting.

The number of Deferred Share Awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	3,214,632	4,715,206
Exercised during the year	(1,025,640)	(1,500,574)
Outstanding at 31 December	2,188,992	3,214,632

No awards were exercisable at either 31 December 2011 or 31 December 2010.

26. Share-based payments continued

At 31 December 2011 the following EDRP Deferred Share Awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
8 July 2009	2,188,992	8 July 2012	0.0p

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 0.5 years (31 December 2010: 1.1 years).

(c) F&C REIT variable non-controlling interests SBP

In accordance with the F&C REIT Partnership Agreement, the F&C REIT minority partners (Kendray Properties Limited, Leo Noé and Ivor Smith) have the potential to increase their stake in F&C REIT Asset Management LLP (F&C REIT) collectively from 30% to 40%.

A variable NCI was granted as an incentive to achieve increased levels of profit including realisation of future performance fees in return for a potential increased stake in the business. This variable NCI is therefore accounted for under IFRS 2: Share-based Payment. The fair value of the "award" at date of acquisition reflected the value assessed as part of the acquisition valuation. The fair value of the award is reassessed at each reporting date and this fair value is spread over the relevant vesting period.

The minority partners have the potential to increase their stake in F&C REIT by 3.33% for every year in which the EBITDA performance target of £45.0m is achieved, up to a maximum of 10%. The variable NCI performance criteria could be achieved in any year of the six calendar years ending 31 December 2014. At 31 December 2011 the Directors have assessed that the performance target is unlikely to be achieved in any of the remaining performance measurement periods. The cumulative charge previously recognised has been reversed at 31 December 2011, but would be reinstated to the extent that any performance criteria were met.

(d) F&C REIT Long-Term Remuneration Plan (F&C REIT LTRP)

During 2010, a new scheme was introduced to incentivise F&C REIT employees.

There are two elements to the Plan:

- (i) Deferred Award with no performance conditions; and
- (ii) Restricted Awards with performance conditions.

Participants are awarded notional units in the F&C REIT Asset Management LLP Group (F&C REIT), each equal to 0.00005% of the market value of F&C REIT. The market value of F&C REIT is determined annually by an independent valuation.

The Deferred Awards vest at the end of a pre-determined period from grant date (normally three years), subject to the continued employment of the participant. On vesting, the awards are settled by a cash payment based on the market value of each unit at the end of the vesting period.

No Restricted Awards have been granted under the performance element of this Plan to date.

The number of F&C REIT LTRP Deferred Awards is as follows:

	2011 Units	2010 Units
Outstanding at 1 January	28,859.60	–
Granted during the year	15,833.33	28,859.60
Forfeited during the year	(219.53)	–
Expired during the year	(865.16)	–
Outstanding at 31 December	43,608.24	28,859.60

At 31 December 2011 the following F&C REIT LTRP Deferred Awards were outstanding:

Grant date	No. of units outstanding	Earliest exercise date	Exercise price
1 May 2010	15,891.47	1 April 2012	0.0p
1 May 2010	12,216.77	1 May 2013	0.0p
1 May 2011	15,500.00	1 May 2014	0.0p

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 1.3 years (31 December 2010: 1.7 years).

The intrinsic value of a unit at 31 December 2011 was £75.50 (31 December 2010: £90.00).

26. Share-based payments continued

(e) Thames River Capital Management Retention Plan (TRC MRP)

The TRC MRP was one of the two new share plans established at the date of the TRC acquisition to retain and incentivise key professionals within the TRC Group. Awards of deferred shares vest three years after completion of the acquisition, subject to continued employment within the F&C Group or membership of one of the two TRC LLPs. The TRC MRP awards are not subject to any performance criteria. The TRC MRP includes good and bad leaver provisions.

The number of TRC MRP awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	21,312,209	–
Granted during the year	–	21,312,209
Outstanding at 31 December	21,312,209	21,312,209

No awards were exercisable at either 31 December 2011 or 31 December 2010.

At 31 December 2011 the following TRC MRP awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date	Exercise price
1 September 2010	21,312,209	1 September 2013	0.0p

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 1.7 years (31 December 2010: 2.7 years).

(f) Thames River Capital Management Incentive Plan (TRC MIP)

The TRC MIP is the second of two plans established at the date of the TRC acquisition to further incentivise TRC employees and members of the two TRC LLPs in the six-year period from the date of acquisition (Completion) on 1 September 2010.

Awards under the TRC MIP will vest upon achievements of specified financial targets as follows:

- 12.5% of the shares subject to awards will vest on the date falling 30 months following Completion provided that the Run-rate EBITDA of the TRC Group as at 31 December 2011 is £15.0m or more. If the Run-rate EBITDA is £12.5m or less, none of this tranche of shares will vest and the number of the shares that vest will increase on a linear basis if the Run-rate EBITDA falls between the two thresholds;
- 12.5% of the shares subject to awards will vest on the third anniversary of Completion provided that the Run-rate EBITDA of the TRC Group as at 30 June 2012 is £17.0m or more. If the Run-rate EBITDA is £15.0m or less, none of this tranche of shares will vest and the number of the shares that vest will increase on a linear basis if the Run-rate EBITDA falls between the two thresholds; and
- the remaining 75.0% of the shares subject to awards will vest in two equal instalments on each of the fifth and sixth anniversaries of Completion provided that the cumulative EBITDA of the TRC Group for the four-year period to 31 March 2014 is equal to £100.0m or more. If the cumulative EBITDA is equal to £60.0m or less, none of this tranche of shares will vest and the number of the shares that vest will increase on a linear basis if the Run-rate EBITDA falls between these two thresholds.

Vesting is subject in each case to continued employment within the F&C Group or membership of the relevant LLP (as the case may be). The terms of the TRC MIP includes good and bad leaver provisions, change of control provisions and a cash-settled element. In addition, participants in the TRC MIP will receive an additional cash payment (up to a maximum aggregate amount of £3.0m), payable at the time that shares are delivered and in proportion to the number of shares which vest.

The 31 December 2011 Run-rate EBITDA target was not met. The Directors also believe that none of the other financial targets are expected to be achieved and the cumulative charge has been reversed at 31 December 2011, but will be reinstated should the performance criteria be met. The number of TRC MIP awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	14,208,140	–
Granted during the year	–	14,208,140
Outstanding at 31 December	14,208,140	14,208,140

No awards were exercisable at 31 December 2011 or 31 December 2010.

At 31 December 2011 the following TRC MIP awards were outstanding:

Grant date	No. of awards outstanding	Earliest exercise date*	Exercise price
1 September 2010	1,776,018	1 March 2013	0.0p
1 September 2010	1,776,018	1 September 2013	0.0p
1 September 2010	5,328,052	1 September 2015	0.0p
1 September 2010	5,328,052	1 September 2016	0.0p

* Assuming performance criteria satisfied.

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 3.5 years (31 December 2010: 4.5 years).

26. Share-based payments continued

(g) Thames River Capital Commutation arrangements (TRC Commutation arrangements)

Note 15(a) outlines the key aspects of the Commutation arrangements which were established at the date of the acquisition of TRC by the F&C Group. Under these arrangements, the Divisional Members of TRC Investment Teams entered into put and call options, which if exercised will typically transfer up to 20% of their entitlement to management fee profits to the F&C Group. The members of the LLPs are considered to be providing services to the Group and as a result, the share element of the Commutation consideration is required to be accounted for as a share-based payment.

It is the intention of the Directors to settle these awards in equity and therefore they have been treated as equity-settled awards.

The maximum payable under Commutation arrangements is £81.4m and F&C has authority to issue a maximum of 122,511,485 shares to settle the consideration payable on exercise of the options.

The options are re-measured at intrinsic value at each reporting date and the total expense is spread over the respective vesting period. The options are considered to have non-market performance conditions – if the options are not exercised, then there is no charge to the Income Statement.

	31 December 2011	31 December 2010
	£m	£m
Cumulative TRC Commutation expense, recognised in equity	10.5	4.8
Total intrinsic value of unexercised Commutation options	14.9	20.1
	No.	No.
Potential number of FCAM plc shares which would be settled as at the reporting date (based on Commutation Consideration Share Issue share price at 31 December)	23,527,481	25,449,030

No Commutation options were exercisable at either 31 December 2011 or 31 December 2010. However, at 31 December 2011 some 10.9 million of the shares which would be issued to settle Commutation arrangements relate to options potentially exercisable by the Divisional Members, and 12.6 million shares relate to the options potentially exercisable by the Group.

The Commutation arrangements are exercisable at dates between 1 March 2012 and 1 September 2016.

(h) Purchased Equity Plan (PEP)

(i) F&C Asset Management plc shares

The PEP operated in conjunction with the discretionary bonus scheme and was intended to encourage shareholding by management and employees of the Group by providing for the compulsory purchase of shares using annual bonus above a threshold level.

At the Board's discretion, eligible employees who were awarded in a financial year an aggregate bonus in excess of a threshold level, typically £100,000, were required to defer one-third of the element exceeding the threshold into shares (comprising either a range of investment products managed by the Group or the Company's shares) (Compulsory PEP) for three years.

The Compulsory PEP is subject to forfeiture in the event that the employee leaves the Group for any reason (other than as a good leaver) in the three-year retention period.

The number of Compulsory PEP share awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	783,727	1,396,860
Granted during the year	–	493,810
Exercised during the year	(66,716)	(1,105,055)
Forfeited during the year	(25,813)	(1,888)
Outstanding at 31 December	691,198	783,727
Exercisable at 31 December	2,728	13,145

The awards exercisable at 31 December 2011 and 31 December 2010 relate to good leavers.

At 31 December 2011 the following awards granted under the PEP to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercise price
2 April 2009	197,388	2 April 2012	0.0p
31 March 2010	493,810	31 March 2013	0.0p

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 0.9 years (31 December 2010: 1.8 years).

26. Share-based payments continued

(ii) F&C Investment Funds

At the discretion of the Board, the cash bonus may be deferred on a mandatory basis into certain F&C Funds (Compulsory Purchased Equity) subject to continued service over either three or four years. This option is available as an alternative to the Compulsory PEP into FCAM plc shares. The main benefit of this arrangement is to incentivise fund managers to invest in the funds they manage, thereby further aligning employee interests with those of clients.

The settlement of awards from the Compulsory PEP (F&C Investment Funds) is made by realisation of the holding in the fund at the vesting date and purchase of FCAM plc shares at that date. The value of the investment in F&C Funds, the FCAM plc share price and hence the ultimate number of FCAM plc shares to be settled is only known with certainty at the vesting date. Any dividends paid by F&C Funds during the vesting period are re-invested in F&C Investment Funds.

The awards meet the criteria of IFRS 2: Share-based Payment. However, as the awards are ultimately settled in FCAM plc shares, it is not considered possible to reliably estimate the fair value of these awards at the grant date. This is due to the number of market-based criteria which ultimately combine to determine the number and value of FCAM plc shares settled. Settlement of these awards to employees is satisfied by the purchase of FCAM plc shares in the market.

The fair value of these awards at the year end has been determined by measurement of the equity instruments at intrinsic value, being the quoted price of the relevant F&C Funds, both at the grant date and at each subsequent reporting date. The intrinsic value is then spread over the vesting period. The value of the services provided is measured using the ultimate value of awards which vest.

The underlying investments are held within an Employee Benefit Trust.

	Note	31 December 2011 £m	31 December 2010 £m
Value of F&C Investments held within the Purchased Equity Plan	18(a)(i)(2)	1.5	4.0
		No.	No.
Number of FCAM plc shares which would be settled as at the reporting date (based on year-end share price)		2,218,877	4,709,271

(i) Deferred Share Awards

The Group has made some deferred share awards which are not subject to ongoing performance conditions, but have a time-vesting period.

The number of share awards is as follows:

	2011 No.	2010 No.
Outstanding at 1 January	1,108,959	40,000
Granted during the year	22,200	1,068,959
Exercised during the year	(40,000)	–
Outstanding at 31 December	1,091,159	1,108,959

No awards were exercisable at either 31 December 2011 or 31 December 2010.

At 31 December 2011 the following Deferred Share Awards were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercise price
1 September 2010	1,068,959	1 March 2012	0.0p
1 April 2011	22,200	1 April 2014	0.0p

The awards outstanding at 31 December 2011 have a weighted average outstanding term of 0.2 years (31 December 2010: 1.2 years).

26. Share-based payments continued

(j) Share Save Scheme

The Share Save Scheme is an "all-employee share scheme". Participants are required to enter into a savings contract with a savings provider. At the end of the savings period employees can elect to receive cash or exercise options. The options granted entitle the holders to acquire Ordinary Shares at a price per Ordinary Share determined by the Directors prior to the issue of invitations. The price at which options are offered cannot be less than 80% of the middle-market quotation of an Ordinary Share at the date of grant.

The number and weighted average exercise prices (WAEP) of share options are as follows:

	2011		2010	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	197,102	1.56	534,288	1.56
Forfeited during the year	(68,268)	1.51	(293,178)	1.53
Expired during the year	(22,405)	1.71	(44,008)	1.73
Outstanding at 31 December	106,429	1.45	197,102	1.56
Exercisable at 31 December	3,766	1.71	7,747	1.51

The 2006 (five-year) award vested during 2011. No options were exercised and the options expired.

At 31 December 2011 the following options granted under the Share Save Scheme to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
18 April 2006 (five-year)	3,766	1 January 2012	1 June 2012	171.0p
25 April 2007 (five-year)	102,663	1 June 2012	1 December 2012	144.3p

The options outstanding at 31 December 2011 have a weighted average outstanding term of 0.3 years (31 December 2010: 0.9 years).

(k) 1995 and 2002 Executive Share Option Schemes

IFRS 2: Share-based Payment is only applied to grants of shares, share options or other equity instruments that were granted after 7 November 2002 and had not vested before 1 January 2005 (i.e. the effective date of IFRS 2). The 1995 Executive Share Option Scheme (1995 ESOS) and the 2002 Executive Share Option Scheme (2002 ESOS) both granted options before 7 November 2002 and are not therefore subject to the full effects of IFRS 2 in terms of recognising an expense in the Income Statement. The standard does, however, require certain disclosures to be made in respect of these schemes.

All options under both schemes have now vested.

If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group.

The number and weighted average exercise price (WAEP) of share options are as follows:

	2011		2010	
	No.	WAEP £	No.	WAEP £
Outstanding at 1 January	1,318,528	2.43	1,614,150	2.37
Expired during the year	(408,628)	3.45	(295,622)	2.14
Outstanding at 31 December	909,900	1.96	1,318,528	2.43
Exercisable at 31 December	909,900	1.96	1,318,528	2.43

At 31 December 2011 the following options granted under the 1995 and 2002 ESOS to acquire Ordinary Shares were outstanding:

Grant date	No. of options outstanding	Earliest exercise date	Exercisable before	Exercise price
19 March 2003	399,343	1 January 2012	19 March 2013	139.00p
9 March 2004	510,557	1 January 2012	9 March 2014	240.83p

The options outstanding at 31 December 2011 have a weighted average outstanding term of 1.8 years (31 December 2010: 2.3 years).

27. Deferred income

	2011 £m	2010 £m
At 1 January	11.8	12.9
Fair value of additions arising on acquisition of TRC	–	0.7
Income deferred in the year	2.4	2.4
Amortisation in the year	(3.9)	(4.2)
At 31 December	10.3	11.8
	31 December 2011 £m	31 December 2010 £m
Split as follows:		
Non-current liabilities	7.0	8.1
Current liabilities	3.3	3.7
	10.3	11.8

Deferred income primarily comprises initial fees arising on investments into open-ended funds. These fees are initially recognised as deferred income and released to income over the estimated period (2011: four to seven years; 2010: four to seven years) for which the investment is expected to be held.

28. Other financial liabilities

	31 December 2011 £m	31 December 2010 £m
Non-current:		
F&C REIT put option liabilities	41.5	49.5
Current:		
F&C REIT put option liabilities	3.8	4.5
Total other financial liabilities	45.3	54.0

The F&C REIT put options represent the fair value of the potential future liability to purchase the 30% interest in F&C REIT currently held by the minority interest partners in this business. The REIT parties have the right to require F&C to acquire all or part of their membership interests in F&C REIT at a valuation determined by an independent valuer, subject to an overall cap on F&C's liability of £100.0 million. Ivor Smith's option is exercisable after the third anniversary of Completion and Leo Noé's option is exercisable after the seventh anniversary of Completion. While Kendray Properties Limited does not have any direct right to require F&C to acquire its holding in F&C REIT, under the terms of the Partnership Agreement Kendray cannot hold a greater interest in F&C REIT than the aggregate of Leo Noé's and Ivor Smith's interests (or the holder of their beneficial interests) and is therefore effectively required to transfer an element of its holding such that this requirement is achieved. The consideration for such a transfer would be fair value. Hence, in determining the gross liability of the option, Kendray Properties Limited's entire holding in F&C REIT has been included. The reduction in the fair value of the F&C REIT put option liabilities of £8.7m during 2011 (2010: £6.4m reduction) has been released to the Income Statement as detailed in note 6(b).

An external valuation of the F&C REIT business is performed at each reporting date to enable a fair value to be placed on the F&C REIT put option liabilities.

The average of three valuation methodologies (equally weighted) was used to place a fair value on the F&C REIT business, namely:

1. Discounted cash flow method
2. Market earnings before interest, taxation, depreciation and amortisation (EBITDA) multiple
3. Fixed EBITDA multiple

The main assumptions used in the valuation methodologies are:

(a) Projections of the profit and loss for F&C REIT:

Net new business:	Based on the F&C REIT approved budget for year one, with management forecast projections for the subsequent few years
Revenue growth:	1.5% – 7.0% per annum
Cost inflation:	3.5% per annum

(b) Discount rates: 12.5% on recurring cash flows
25.0% on non-recurring cash flows

(c) Perpetuity growth rates: 3.0% for recurring cash flows
3.0% for non-recurring cash flows

(d) Earnings multipliers: 9.0 x recurring EBITDA
3.0 x non-recurring EBITDA

29. Investment contract liabilities

Investment contract liabilities in respect of policyholder investments at the start and end of the year and an analysis of movements during the year are as follows:

	Note	2011 £m	2010 £m
Liability as at 1 January		559.2	649.9
Contributions received		41.6	66.4
Investment return applied	3	13.7	74.3
Charges levied		(1.9)	(3.1)
Repayments		(139.8)	(229.2)
Movement in contingency reserve		–	(0.2)
Movement in reinsurance ceded		–	1.1
Liability as at 31 December		472.8	559.2

All investment contract liabilities have been disclosed as current liabilities as this is considered to be appropriate to the rights of policyholders who may withdraw their investments at short notice. The Directors expect that the majority of the investment contract liabilities will be repayable outwith one year.

30. Insurance contract liabilities

Insurance contract liabilities include life assurance liabilities in respect of lifetime guarantees provided with certain investment products, and annuity liabilities in respect of pension investment contracts where the investor has retired. These liabilities and related reinsurance balances at the start and end of the year, together with an analysis of movements in the year, are as follows:

	2011			2010		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
At 1 January	2.0	(2.0)	–	1.9	(1.9)	–
Claims paid	(0.2)	0.2	–	(0.1)	0.1	–
Change in economic assumptions	0.1	(0.1)	–	0.1	(0.1)	–
Unwinding of discount rate	0.1	(0.1)	–	0.1	(0.1)	–
At 31 December	2.0	(2.0)	–	2.0	(2.0)	–

The reinsurance liabilities relate to annuity business reinsured with Friends Life Limited.

A liability adequacy test was carried out at policy level and resulted in no additional provision for either 2011 or 2010. No significant gain or loss arose on reinsurance contracts inception in 2011 or 2010.

Assumptions

The principal assumptions used in determining the insurance contract liabilities and the reinsurer's share of these liabilities, and the process adopted to arrive at these assumptions are as follows:

Mortality rates

	2011	2010
Annuities in payment	Males: 97% FCMA00; Females: 92% FCFA00	82–93% PCXA00

Due to the small number of annuity policies, the mortality assumptions reflect recent experience of the reinsurer together with an allowance for future mortality improvement. Experience analysis for mortality is performed annually by the reinsurer.

Discount rate

The discount rate used at 31 December 2011 is 4.02% (31 December 2010: 4.81%) based on current fixed interest gross redemption yields, with a prudent adjustment for risk.

31. Share capital

	31 December 2011		31 December 2010	
	No. of shares	£m	No. of shares	£m
Ordinary Share capital of 0.1p				
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p*	532,118,789	0.5	532,118,789	0.5

* Includes those categorised as own shares.

	2011 No. of shares	2010 No. of shares
Issued at 1 January	532,118,789	499,273,120
Placing of new shares	–	24,807,145
Issued at Completion in respect of TRC Commutation arrangements	–	6,085,996
Issue of shares at par to settle share-based payment awards [†]	–	1,952,528
Issued at 31 December	532,118,789	532,118,789

[†] During 2010 Ordinary Shares were allotted at par value into an EBT to settle share-based payment awards. There was no exercise price associated with these awards.

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The Group held the following Ordinary Shares in Employee Benefit Trusts (EBTs) or similar arrangements. These are categorised as own shares and are deducted from shareholders' funds:

	31 December 2011 No.	31 December 2010 No.
F&C Management Limited Employee Benefit Trust	10,437,516	17,778,910
The Ivory & Sime Employee Benefit Trust	64,176	64,176
Thames River Capital (UK) Limited Family Benefit Plan	1,185,960	1,139,460
Held by RBC cees in a nominee capacity [#]	2,253,335	2,195,059
	13,940,987	21,177,605

[#] These are specifically held as TRC Deferred Commutation Shares in respect of Commutation arrangements.

The aggregate nominal value of own shares held by EBTs at 31 December 2011 was £14,000 (31 December 2010: £21,000). The market value of these shares at 31 December 2011 was £9.1m (31 December 2010: £17.8m).

During the year, the Group purchased 4,125,841 of its own 0.1p Ordinary Shares (2010: 14,988,822) to satisfy the settlements of awards granted under share schemes and to hold as own shares within an EBT. The consideration paid for the shares was £3.2m (2010: £9.7m).

32. Reserves

The analysis of movements in reserves is disclosed within the Consolidated Statement of Changes in Equity on page 45.

Nature and purpose of reserves:

Share premium account

The share premium account is used to record the issue of share capital in excess of par value.

Capital redemption reserve

The Capital redemption reserve is used to maintain the capital of the Company when shares are bought back and subsequently cancelled without Court Approval.

Merger reserve

The merger reserve is used to record share premium on shares issued by way of consideration in respect of acquisitions. The element of the merger reserve which relates to amortisation and impairment of intangible assets charged to the Income Statement is considered to be realised.

A transfer is made from the merger reserve to retained earnings to recognise the extent to which the merger reserve has been realised, thereby offsetting the corresponding element of the intangible amortisation and any impairment charge.

32. Reserves continued

Other reserves:

- **Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations and non-Sterling denominated intangible assets.

- **Fair value reserve**

This reserve records fair value changes on available for sale investments until the investments are derecognised.

- **Acquisition reserve**

The acquisition reserve was created on the initial recognition of the F&C REIT NCI put option liabilities.

Retained earnings

Movements in retained earnings comprises:

- net profits and losses recognised through the Income Statement;
- dividend distributions to equity holders;
- actuarial gains and losses recognised on pension obligations;
- deferred tax on actuarial gains and losses;
- transactions relating to equity-settled share-based payments, and deferred tax movements on share-based payments reflected through equity;
- transactions with NCI in respect of their share of the partnerships;
- the purchase and sale of own shares; and
- transfers from merger reserve.

Non-controlling interests (NCI)

This reserve represents the share of the Group's net assets which are not attributable to equity holders of the parent, including the NCI share of intangible assets arising from business combinations and subsequent amortisation thereof.

33. Notes to the statement of cash flows

(a) Analysis of movements in statement of cash flows

	Notes	2011 £m	2010 £m
Adjustments for non-cash items:			
Depreciation of property, plant and equipment	12	3.2	2.7
Amortisation of intangible assets	13	46.4	51.4
Loss on disposal of property, plant and equipment		0.3	0.1
Equity-settled share-based payment expenses	26	17.3	19.5
Non-cash movements on forward currency contracts		–	(0.9)
		67.2	72.8
Changes in working capital and provisions:			
Decrease/(increase) in trade and other receivables		78.6	(57.2)
(Decrease)/increase in trade and other payables		(56.5)	50.9
Decrease in employee benefit liabilities		(1.2)	(2.1)
(Increase)/decrease in stock of units and shares	18(a)(ii)	(0.8)	0.2
Increase in liabilities to members of LLPs		0.3	1.0
Decrease in other liabilities		–	(0.4)
Decrease in investment contract liabilities	29	(86.4)	(90.7)
Increase in insurance contract liabilities		–	0.1
Decrease in deferred acquisition costs	16	1.7	0.4
Decrease in deferred income	27	(1.5)	(1.8)
Pension charge to operating profit less defined benefit pension contributions paid		(3.6)	(10.3)
Decrease in provisions		(3.3)	(2.5)
Decrease in unit-linked financial investments	18(a)(i)(1)	91.0	86.1
		18.3	(26.3)

(b) Property, plant and equipment

During the period the Group acquired property, plant and equipment with an aggregate cost of £2.7m (2010: £1.2m). Cash payments of £3.0m (2010: £1.1m) were made to purchase property, plant and equipment during the year.

(c) Cash and cash equivalents

Note 21 provides details of cash and cash equivalent balances, a description of cash and cash equivalents and restrictions on use of cash, and note 22 gives details of loans and borrowing facilities.

34. Contingent liabilities

Ongoing business operations

In the normal course of its business, the Group is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Group.

35. Commitments

Operating leases

The Group has the following future minimum rentals payable in respect of non-cancellable operating leases and other contracts at the year end:

	Premises		Other contracts	
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	31 December 2010 £m
Not later than one year	12.1	12.9	3.2	2.8
Later than one year and not later than five years	35.1	39.5	1.3	1.1
Later than five years	24.5	33.4	–	–
	71.7	85.8	4.5	3.9

Commitments in respect of premises leases exclude service charges and other costs, which are variable in nature, and cannot be reliably estimated.

Obligations in respect of other contracts are stated gross and exclude amounts potentially recoverable from brokers under commission sharing arrangements.

Sub-lease receivables

Future minimum rentals receivable under non-cancellable operating leases at the year end are as follows:

	Premises	
	31 December 2011 £m	31 December 2010 £m
Not later than one year	3.3	3.8
Later than one year and not later than five years	11.5	11.3
Later than five years	8.3	9.1
	23.1	24.2

A contingent lease payment, based on a percentage of revenue, is receivable in addition to the minimum lease payments in respect of one property. The maximum amount receivable under this arrangement is £0.6m (31 December 2010: £0.6m) per annum.

Other commitments

A number of third-party administration services are provided under contracts with a fixed-term duration. The actual amounts payable under these contracts vary according to the level of services received. The minimum amounts payable under the terms of the contracts are as follows:

	Third-party administration	
	31 December 2011 £m	31 December 2010 £m
Not later than one year	4.0	–
Later than one year and not later than five years	13.8	–
Later than five years	2.4	–
	20.2	–

Capital commitments

The amount of capital expenditure contracted for, but not provided for in the Financial Statements at 31 December 2011, was £0.1m (31 December 2010: £0.5m).

36. Financial risk management

Overview

The Group has exposure to a number of business risks. The Board of Directors has overall responsibility for the Group's risk management arrangements, but has delegated the implementation and operation of the Board policies to management. The Group's risk management policies and the risk management framework for identifying, monitoring and managing risks across the Group, including strategic and operational risks, are outlined in the Directors' Report on Corporate Governance on page 32.

The Directors consider it appropriate to differentiate between those financial risks which directly impact the Group and those which indirectly impact the Group due to the risks borne by our clients and the consequential impact on the Group's assets under management and revenues. The Group's direct or indirect exposure to financial instruments arises from the following financial risks:

- Market risk
- Credit risk
- Liquidity risk

This note presents information on the Group's direct or indirect exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. Note 37 provides numerical analysis of the Group's financial instrument exposure to such risks, including relevant sensitivity analysis, at the reporting date.

Indirect earnings risk through client assets

As an active fund manager, the Group is responsible for managing assets in accordance with the mandates specified by our clients. The assets managed by the Group are subject to varying financial risks (market, credit and liquidity). While these risks could result in financial loss or gain through a change in asset value, these risks and rewards are fully borne by, or fall to the benefit of, our clients.

However, as the majority of the Group's revenues are quantified as a percentage of assets under management (generally on a quarterly, monthly or daily basis), the Group's income is impacted by movements in client assets which are caused by the exposure to financial risks. As a result of the direct link of revenues to the value of client assets, the Group's interests are aligned to those of our clients.

A key risk to our business is that of poor investment performance, which could lead to the subsequent loss of client mandates. A key role of the heads of F&C's investment functions is to monitor the fund performance achieved by our investment professionals. Where it is considered necessary, actions are taken to change process or personnel with a view to attaining top quartile performance. The Group has the ability to earn performance fees from a number of our clients based on absolute performance or where out-performance of the benchmark or set objective is achieved. These arrangements reinforce the alignment of the Group's interests with those of our clients.

The key components of financial risk to which our clients are exposed are:

Market risk – the risk of financial loss arising from changes in the market prices of assets. Market risks include exposure to all asset classes, including equities, fixed income products and property as well as currency risk and interest rate risk.

Credit risk – the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in respect of assets held within client portfolios. Credit risk can vary by asset class and individual instrument.

Liquidity risk – the risk of financial loss to client portfolios because a counterparty does not have sufficient financial resources available and is unable to realise assets in order to meet its obligations as they fall due, or can only realise assets by suffering financial loss.

Direct earnings and capital exposure

The Group has direct exposure to the following risks in respect of financial instruments on the Statement of Financial Position:

- *Market risk* – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.
- *Credit risk* – the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations in respect of financial instruments held by the Group. Credit risk includes investment credit risk, counterparty risk, deposit and loan risks and country risk.
- *Liquidity risk* – the risk of the Group failing to maintain adequate levels of financial resources to enable it to meet its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Group could be required to pay its liabilities earlier than expected or because of any inability to realise assets in order to meet obligations as they fall due or is only able to realise assets by suffering financial loss.

A fuller analysis follows of the financial risks associated with the Group's financial instruments, together with the objectives, policies and processes to manage the Group's exposure to those risks.

36. Financial risk management continued

Unit-linked assets and liabilities

A significant element of the value of the Group's financial assets relates to the Group's unit-linked pooled pension entity, F&C Managed Pension Funds Limited (F&C MPF). As outlined in note 18(a)(i)(1), Financial Instruments, the risks and rewards associated with these assets, which are held by F&C MPF, fall to be borne by, or to the benefit of, the underlying policyholders. As a result, the investment contract liabilities included in the Statement of Financial Position are equal and opposite in value to the assets which are held on behalf of unit-linked policyholders. The Group has no direct exposure to fluctuations in the value of the assets arising from changes in market prices or credit default, although the revenue stream earned from managing these assets varies in line with the movement in assets held on behalf of clients.

The financial risk management disclosures specifically exclude policyholders' unit-linked assets and liabilities relating to F&C MPF as there is no direct exposure to the Group from the associated financial instruments.

Financial investments

Recognising that the Group's revenue stream has significant financial exposure to fluctuations in assets managed on behalf of clients, a key principle of the Group Treasury Policy set by the Board is to restrict investment of the Group's assets to low risk deposits or money market instruments where the risk of capital loss is low, thereby seeking to protect the Group's capital. Advance Board approval is required for any investment or financial instrument which does not follow this general principle.

The Board recognises that the Group has significant exposure to Euro-denominated cash flows, but at this point in time has not chosen not to enter into any medium-term forward exchange contracts. During 2010 the Group recognised £0.9m of a realised gain in respect of a historic medium-term forward currency contract. This gain represented the partial reversal of a £1.3m unrealised loss recognised in prior periods. As at 31 December 2011 and 31 December 2010, the Group held short-term contracts, to a gross value of less than £1.0m, which were specifically matched to foreign currency assets at year end.

Financial investments classified as available for sale, as detailed in note 14, primarily reflect the value of the Group's private equity investments. These represent carried interest entitlement which arises from the Group's historical ownership of private equity businesses. The Board does not seek to manage any of the financial risks associated with these investments and recognises that uncertainty exists as to the quantum and timing of future distributions which may arise from these investments.

Other financial investments, classified as fair value through profit or loss, as detailed in note 18(a)(i)(2), primarily comprise assets held in connection with current or historic employee remuneration arrangements. The Group has no net financial exposure to Purchased Equity Plan, Bonus investments and TRC Employee Benefits assets as the risks and rewards of all movements in the value of these financial assets fall to the beneficiary and are offset by equal and opposite movements in the Group's associated employee benefit liabilities, which accrue over the vesting period. The 'NIC hedge' economically hedges the Group's exposure to movements in future national insurance contributions obligations in respect of legacy employee share plans.

Stock of units and shares

The Group operates and manages a number of OEICs whose funds, into which retail and institutional investors can invest, have a wide range of investment objectives. The Group holds a stock of units and shares in these OEIC funds in order to facilitate the creation and redemption of units by investors. The Group's risk management policy limits the aggregate value of the units held by the Group to £1.25m, thereby capping the maximum financial risk exposure associated with these assets.

Trade debtors and accrued income

Trade debtors and accrued income represent amounts recognised within net revenue in the Income Statement, but which have not been settled in cash. The nature of F&C's business is such that asset management fees accrue based on daily, month-end or quarter-end asset values which, once known, are billed to clients and are due to be settled in line with individual contractual terms. As a result, the aggregate value of debtors and accrued income can represent up to four months of revenue at any point in time. In addition, as a significant portion of the performance fees which can be earned by the Group accrue in respect of the calendar year and can only be billed subsequently, the quantum of accrued income recognised in the Statement of Financial Position at the reporting date is generally higher than at other points during the year and is sensitive to the magnitude of performance fees earned.

Before the Group takes on new clients, it undertakes the required "Know Your Client" procedures. As the Group manages assets on behalf of clients and management fees are typically charged to and paid from the underlying funds managed by the Group, there is a relatively low risk of default on management fees. The Group does not hold any credit insurance. Due to the scale of some of F&C's larger clients, the Group is exposed to a concentration of credit risk from large clients or groups of connected clients, arising from timing difference between the recognition of income and the receipt of management fees outlined above. Very few clients have an external credit rating.

Where management fees are denominated in a currency other than Sterling, the Group is exposed to currency risk. As noted earlier, the Group no longer hedges any significant element of its exposure to monetary assets denominated in foreign currency.

36. Financial risk management continued

OEIC and unit trust debtors

'OEIC and unit trust debtors' include trustee debtors and debtors due from investors in respect of the purchase of units. Typically, the Group recognises 'OEIC and unit trust creditors' of a similar magnitude at any point in time. In operating and managing OEICs, the Group seeks to match the purchase and sale of investments to align to the receipt or payment of funds from or to investors. However, if these obligations are not matched then there is a requirement for the Group to fund any shortfall from its corporate cash resources. The risk relating to unsettled transactions is considered small due to the short settlement period involved. In the event that investors default on sums due, then the Group is entitled to reimbursement of costs from the investor.

Cash and cash equivalents

F&C adopts a low risk approach to treasury management and seeks to ensure that its capital is preserved and financial risks are managed appropriately.

The Group treasury operations are managed by the Finance function within parameters defined by the Board. The regulatory capital and treasury position of the Group are reported to the Board on a regular basis.

The Group's cash and cash equivalent assets are exposed to a number of financial risks in the normal course of its business. The policy adopted is designed to manage risk and recognises that treasury management operations are specifically not treated as a profit centre. The key aspects of this policy and its implementation are detailed below:

- Funds on deposit will only be placed on a short-term basis (maximum term 90 days) to help maximise regulatory capital.
- Deposits may only be placed with counterparties approved by the F&C Credit Committee, and the Board has set a £25.0m limit for the maximum exposure to any single counterparty. The F&C Credit Committee's primary focus is to assess the credit position of counterparties prior to placing any client assets with them and to monitor credit risk thereafter.
- Exposure to cash and cash equivalent balances held in foreign currency is managed to reduce the risk of movements in exchange rates, where possible, by the repatriation of surplus foreign currency into Sterling. This is achieved in practice via the regular settlement of the Group's transfer pricing arrangements and through the payment of dividends from foreign subsidiaries, having regard to any restrictions in respect of their respective legal, regulatory and working capital requirements.
- Cash and deposit balances can be exposed to interest rate movements. The Group utilises the experience and skills of its professional dealing team to obtain the best interest rates, ensuring the expected maturity dates of deposits are aligned to the Group's working capital requirements.

Any exception to the treasury policy requires the prior approval of the Board. Recognising the potential consequences of the recent global and European financial crises, management sought to operate throughout 2010 and 2011 with a maximum corporate exposure to any one financial institution of £15.0m. Prior approval was given for a limited number of exceptions.

Reinsurance assets

The Group's unit-linked pooled pension subsidiary is an insurance company and has some exposure to insurance contract liabilities, as outlined in note 30. These liabilities are fully reinsured as the Group seeks to have no net insurance exposure. The reinsurance assets represent the expected amounts recoverable to meet insurance liabilities as they fall due. The Group has exposure to both credit and liquidity risk on these assets.

Defined benefit pension deficit

The Group's defined benefit pension deficit represents the discounted value of future pension obligations in excess of plan assets, details of which are given in note 25.

The Group has exposure to movements in the market value of the plan assets, which include equities and LDI fixed interest pools. Approximately 25% of the assets held in respect of the UK scheme are held in LDI pools, with maturity profiles which match the expected maturity profile of pension obligations. The market values of the LDI pools are impacted by movements in interest rates.

The value of defined benefit pension obligations is quantified and discounted using corporate bond rates. Movements in these rates can have a significant impact on the pension liabilities and hence the quantum of the Group's pension deficit.

Management of capital

While F&C considers its capital to be its total equity, this is effectively managed via the net assets to which it relates. The Company's Ordinary Shares are listed on the London Stock Exchange. The Board monitors significant movements in the composition of its shareholder base. Details of substantial interests in share capital are shown in the Report of the Directors on page 25. In the ordinary course of business the only movements in the absolute number of shares in issue would be through the issue of new or own shares to satisfy obligations under share-based payment arrangements or through the purchase of own shares to satisfy future share scheme obligations.

36. Financial risk management continued

The Directors give careful consideration to the appropriate funding structure for financing all acquisitions, which historically have included both equity and debt funded transactions. During 2010 some 24.8 million new shares were placed in the market to partially fund the TRC acquisition and some 6.1 million of new shares were issued in respect of the Commutation arrangements.

Dividends are only declared by the Board after due consideration of a number of key items, including the financial results and the outlook of the financial position of the Company and of the Group. The dividend policy seeks to achieve a targeted dividend cover of 1.5 times underlying earnings per share. The Board declared a total dividend of 3.0 pence per share for 2011.

The overall objective of shareholder liquidity risk management is to ensure that there is sufficient liquidity over short and medium time horizons to meet the needs of the business. This includes liquidity to cover, among other things, capital expenditure, servicing debt and equity capital as well as working capital to fund the Group's day-to-day operational requirements. The Board indicated that it will seek to reduce net debt over the medium-term, with a target of zero net debt to be achieved by the end of 2014. While the Board consider this target to be achievable, the Directors recognise that a number of risks exist which could prevent this target from being achieved.

Working capital

Working capital is monitored on a daily basis to ensure that settlement terms of all forthcoming liabilities can be met. This activity includes timely collection of debtors and monitoring of cash on deposit, having regard to regulatory capital requirements, as outlined below. The Group's Finance function includes a Treasury team which manages the cash flow requirements of the Group while seeking to maximise the amount of cash on deposit.

At 31 December 2011 the Group had a £20m revolving credit facility and bank overdraft facilities available to it which provided some protection against any short-term cash-flow deficiencies. The revolving credit facility expired on 29 February 2012. The undrawn committed facilities available at the reporting date are shown in note 22 as are details of the Group's interest-bearing loans and borrowings.

The Group has some £150m of Guaranteed Fixed-Rate Loan Notes which mature in December 2016 together with some £125m of Fixed/Floating Rate Subordinated Notes in issue. The earliest repayment date for these Subordinated Notes is 2016, but this can be extended at the option of the Group to 2026. In addition, the Group has the option to defer interest payments on this subordinated debt, but if it elects to do so then no dividend can be paid to Ordinary Shareholders until the cumulative amount of any unpaid interest due on the subordinated debt is settled in full. No such interest payments have been deferred.

The Board Reserved List prohibits the use of derivatives including futures, options and forward contracts, in respect of the Group's net assets, without prior Board approval, recognising the general principle of seeking to minimise capital loss.

Regulatory capital requirements

The Group is required to maintain a minimum level of capital in accordance with the Capital Requirements Directive (CRD) prescribed in the UK by the Financial Services Authority (FSA).

In 2006, the Group obtained from the FSA a waiver from meeting any minimum capital requirements under the consolidated supervision rules of the CRD. This waiver took effect from 1 January 2007 and was due to expire at the end of 2011. However, in April 2011 the FSA approved F&C's application to renew the waiver, which now expires in April 2016.

At 31 December 2011, there were 15 regulated companies in the Group, of which 11 are registered in the United Kingdom and are subject to regulation by the FSA. This includes F&C MPF which, being a regulated insurance firm, as opposed to an investment firm, is not part of the consolidation Group for regulatory capital reporting purposes. Overseas regulated companies, registered in the Republic of Ireland, The Netherlands, Portugal and Hong Kong are subject to regulatory capital requirements set out by their respective local regulatory authority, as embedded within the legislation of those jurisdictions.

Regulations set out the measurement of Capital Resources and Capital Resources Requirements (CRR) to determine the regulatory capital surplus or deficit. This CRR is referred to as the Pillar 1 capital requirements under the CRD.

For the UK-regulated investment firms, the CRR is the higher of:

- the sum of the 'credit risk capital requirement' and the 'market risk capital requirement'; and
- the 'fixed overhead requirement'.

Credit risk represents the risk of a party being unable to meet its obligations to a firm and is calculated using risk weighted percentages applied to the various exposure amounts. The market risk for F&C represents the risk of loss from fluctuations in exchange rates and is calculated as a percentage of the total of the long or short positions, denominated in foreign currencies, whichever is the greater. The fixed overhead requirement is calculated as a quarter of a firm's relevant fixed annual expenditure in the previous year's audited Financial Statements.

The regulated companies are required to submit financial returns to the FSA, or the local regulatory authority for overseas companies, setting out the calculation of the regulatory capital surplus (or deficit). The Group's regulated companies are required to submit financial returns monthly, quarterly or semi-annually, and the Group must submit a consolidated return semi-annually.

36. Financial risk management continued

The CRD requires the Group to conduct an Internal Capital Adequacy Assessment Process (ICAAP), referred to as Pillar 2 capital requirements. The objective of this process is to ensure that companies have adequate capital to enable them to manage risks not deemed to be adequately covered under the Pillar 1 minimum requirements. This is a forward-looking exercise which includes stress-testing key risks, considering how the company would cope with a significant market down turn for example, and an assessment of the Group's ability to mitigate the risks.

All of the Group's regulated entities maintained surpluses of regulatory capital throughout 2010 and 2011.

37. The extent of risks arising from financial instruments

Note 36 presents details of the Group's direct or indirect exposure to financial risks arising from financial instruments and the Group's objectives, policies and processes for measuring and managing risk and the management of the Group's capital. This note provides numerical analyses of the Group's direct exposure to such financial risk, including relevant sensitivity analysis, at each reporting date.

The disclosures in this note exclude any policyholder unit-linked assets and liabilities in respect of F&C MPF, as the risks and rewards rest primarily with the policyholders.

(a) Credit risk

(i) Maximum exposure to credit risk

The carrying amount of financial assets represents the Group's maximum exposure to credit risk. The maximum exposure of each class of financial asset is:

	31 December 2011 £m	31 December 2010 £m
Financial assets at fair value through profit or loss:		
Financial investments	6.6	9.9
Stock of units and shares	0.9	0.1
Available for sale financial assets:		
Financial investments	1.7	3.5
Loans and receivables:		
Trade debtors	13.3	21.5
Accrued income	29.0	38.9
OEIC and unit trust debtors	29.5	81.2
Other debtors	4.8	10.8
Amounts owed by Achmea Group*	–	1.4
Amounts owed by TRC related party entities	0.6	0.7
Amounts owned by F&C REIT related party entities	0.1	0.1
Cash and cash equivalents – shareholders		
	196.9	178.8
	283.4	346.9

* As the Achmea Group ceased to be a related party during 2011, the balances are now included within other debtors at 31 December 2011.

The accrued income balance is higher than the average monthly balance during the year. This is primarily due to the level of performance fees recognised at 31 December 2011 and 31 December 2010.

The quantum of OEIC and unit trust debtors fluctuates significantly during the year; the balance is dependent upon the timing and values of creations and liquidations of units or shares.

37. The extent of risks arising from financial instruments continued

The credit risk of the financial assets analysed by the credit ratings of the counterparties, based on external credit ratings, is set out below:

As at 31 December 2011	AAA £m	AA £m	A £m	Other rated £m	Not rated £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	–	1.2	–	0.3	5.1	6.6
Stock of units and shares	–	–	–	–	0.9	0.9
Available for sale financial assets:						
Financial investments	–	–	–	–	1.7	1.7
Loans and receivables:						
Trade debtors	–	–	0.3	0.1	12.9	13.3
Accrued income	–	–	0.1	0.1	28.8	29.0
OEIC and unit trust debtors	–	–	–	–	29.5	29.5
Other debtors	–	–	–	0.3	4.5	4.8
Amounts owed by TRC related party entities	–	–	–	–	0.6	0.6
Amounts owed by F&C REIT related party entities	–	–	–	–	0.1	0.1
Cash and cash equivalents – shareholders	6.3	58.1	118.5	9.8	4.2	196.9
	6.3	59.3	118.9	10.6	88.3	283.4

As at 31 December 2010

Financial assets at fair value through profit or loss:						
Financial investments	–	1.4	–	0.3	8.2	9.9
Stock of units and shares	–	–	–	–	0.1	0.1
Available for sale financial assets:						
Financial investments	–	–	–	–	3.5	3.5
Loans and receivables:						
Trade debtors	–	–	1.3	0.1	20.1	21.5
Accrued income	–	–	0.7	0.2	38.0	38.9
OEIC and unit trust debtors	–	–	–	–	81.2	81.2
Other debtors	–	–	5.7	–	5.1	10.8
Amounts owed by Achmea Group	–	–	1.4	–	–	1.4
Amounts owed by TRC related party entities	–	–	–	–	0.7	0.7
Amounts owed by F&C REIT related party entities	–	–	–	–	0.1	0.1
Cash and cash equivalents – shareholders	16.8	67.0	71.0	24.0	–	178.8
	16.8	68.4	80.1	24.6	157.0	346.9

37. The extent of risks arising from financial instruments continued**(ii) Analysis of financial assets past due but not impaired**

The analysis of financial assets which are receivable but have not been impaired is as follows:

As at 31 December 2011	Neither past due nor impaired £m	Less than 30 days overdue £m	Between 30 and 90 days overdue £m	Between 90 days and 1 year overdue £m	Beyond 1 year overdue £m	Total £m
Financial assets at fair value through profit or loss:						
Financial investments	6.6	-	-	-	-	6.6
Stock of units and shares	0.9	-	-	-	-	0.9
Available for sale financial assets:						
Financial investments	1.7	-	-	-	-	1.7
Loans and receivables:						
Trade debtors	7.7	2.2	2.2	1.2	-	13.3
Accrued income	29.0	-	-	-	-	29.0
OEIC and unit trust debtors	29.5	-	-	-	-	29.5
Other debtors	4.8	-	-	-	-	4.8
Amounts owed by TRC related party entities	0.6	-	-	-	-	0.6
Amounts owed by F&C REIT related party entities	0.1	-	-	-	-	0.1
Cash and cash equivalents – shareholders	196.9	-	-	-	-	196.9
	277.8	2.2	2.2	1.2	-	283.4

As at 31 December 2010

Financial assets at fair value through profit or loss:						
Financial investments	9.9	-	-	-	-	9.9
Stock of units and shares	0.1	-	-	-	-	0.1
Available for sale financial assets:						
Financial investments	3.5	-	-	-	-	3.5
Loans and receivables:						
Trade debtors	10.9	2.6	3.5	4.5	-	21.5
Accrued income	38.9	-	-	-	-	38.9
OEIC and unit trust debtors	81.2	-	-	-	-	81.2
Other debtors	10.2	-	-	0.2	0.4	10.8
Amounts owed by Achmea Group	1.4	-	-	-	-	1.4
Amounts owed by TRC related party entities	-	-	-	0.7	-	0.7
Amounts owed by F&C REIT related party entities	0.1	-	-	-	-	0.1
Cash and cash equivalents – shareholders	178.8	-	-	-	-	178.8
	335.0	2.6	3.5	5.4	0.4	346.9

Based on past experience and the nature of the Group's business, the Directors believe that no additional impairment provision is necessary at either 31 December 2011 or 31 December 2010 in respect of trade debtors. The trade debtor balances, which have been impaired at the reporting dates, are shown below.

(iii) Impairment losses

Details of impairment of financial assets at 31 December are as follows:

Trade debtors provision:

	2011 £m	2010 £m
At 1 January	0.8	0.6
Bad debt charge in the year*	0.4	0.3
Utilised in the year	(0.1)	(0.1)
At 31 December	1.1	0.8
Gross impaired trade debtors	1.1	0.8

* Included within operating expenses in the Income Statement.

No other financial instruments have been impaired during 2011 (2010: none).

37. The extent of risks arising from financial instruments continued

(iv) Concentration risk

Specific concentration of risk in respect of amounts receivable from any one bank or financial institution, client or group of connected clients at the reporting date is given below:

	31 December 2011 £m	31 December 2010 £m
Concentrations of £1.0m or more		
Amounts held with banks and similar financial institutions – 2011: 24 (2010: 17)	196.8	175.1
Amounts due from Achmea Group*	–	4.4
Amounts due from OEIC Trustees	21.8	12.7
Amounts due from other significant clients – 2011: 9 clients (2010: 10)	25.3	88.2
Amounts due from significant other debtors – 2011: no debtors (2010: 1)	–	5.5
	243.9	285.9

* As the Achmea Group ceased to be a related party during 2011, the balances are now included within other significant clients at 31 December 2011.

Concentration risk comprises individual entities or clients with a receivable balance of £1.0m or more at the reporting date. This disclosure shows the potential impact of some of these entities or clients failing to satisfy payment of the receivable amounts. The table does not consider the likelihood of any of these entities or clients defaulting.

(b) Liquidity risk

The following are the maturity dates of the Group's financial liabilities:

As at 31 December 2011	Within 1 year, or repayable on demand £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings:					
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	125.0	–	125.0
Interest on Subordinated Notes*	8.4	8.4	25.4	–	42.2
Guaranteed Fixed Rate Loan Notes 2016	–	–	149.7	–	149.7
Interest on Guaranteed Loan Notes 2016	13.5	13.5	40.3	–	67.3
Trade and other payables:					
Trade creditors	3.7	–	–	–	3.7
OEIC and unit trust creditors	27.8	–	–	–	27.8
Other creditors	21.3	0.7	1.9	1.4	25.3
Accruals	18.0	1.6	0.8	0.5	20.9
Liabilities to members of LLPs	4.7	–	–	–	4.7
Other financial liabilities	3.8	3.8	37.7	–	45.3
	101.2	28.0	380.8	1.9	511.9

As at 31 December 2010

Interest-bearing loans and borrowings:					
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	–	125.0	125.0
Interest on Subordinated Notes*	8.4	8.4	25.3	8.5	50.6
Guaranteed Fixed Rate Loan Notes 2016	–	–	–	149.7	149.7
Interest on Guaranteed Loan Notes 2016	13.5	13.5	40.4	13.4	80.8
Trade and other payables:					
Trade creditors	3.4	–	–	–	3.4
OEIC and unit trust creditors	80.1	–	–	–	80.1
Other creditors	25.8	7.9	0.9	1.3	35.9
Accruals	25.1	–	1.5	0.5	27.1
Amounts owed to Achmea Group	2.0	–	–	–	2.0
Amounts owed to F&C REIT related party entities	0.3	–	–	–	0.3
Liabilities to members of LLPs	4.4	–	–	–	4.4
Other financial liabilities	4.5	4.5	45.0	–	54.0
	167.5	34.3	113.1	298.4	613.3

* To the date of the Group's option to extend the Notes beyond 19 December 2016.

The quantum of OEIC and unit trust creditors fluctuates significantly during the year; the balance is dependent upon the timing and values of creations and liquidations of units or shares.

37. The extent of risks arising from financial instruments continued

The maturity dates of the Group's financial liabilities have been determined by reference to the earliest contractual date on which the counterparty could demand payment and the stated amounts represent undiscounted cash flows.

Other financial liabilities comprise the F&C REIT put options, included at the earliest date at which the options could be exercised.

The Group has borrowing facilities available to it. The undrawn committed facilities available at 31 December 2011 and 31 December 2010 are shown in note 22.

(c) Market risk

(i) Market price risk

The analysis of financial assets which are exposed to market price risk is as follows:

	31 December 2011	31 December 2010
	£m	£m
Financial assets at fair value through profit or loss:		
Financial investments	5.4	8.5
Stock of units and shares	0.9	0.1
	6.3	8.6

Details of the assets held by the Group's defined benefit pension schemes, which are also exposed to market price risk, are given in note 25.

(ii) Other price risk

	31 December 2011	31 December 2010
	£m	£m
Available for sale financial assets:		
Financial investments	1.7	3.5

(iii) Currency risk

The Group is exposed to currency risk at the reporting date in respect of:

- Financial assets and liabilities denominated in foreign currencies; and
- The foreign currency risk of net assets of foreign operations.

The net monetary assets and net investment in foreign operations, in Sterling, which are denominated in foreign currencies or for which the fair value of the asset or liability varies with movements in foreign currencies are:

	Euro £m	US Dollar £m	Other £m	Total £m
As at 31 December 2011	64.0	2.8	1.4	68.2
As at 31 December 2010	75.0	11.0	1.7	87.7

The above table excludes intangible assets.

37. The extent of risks arising from financial instruments continued

(iv) Interest rate risk

The following tables set out the carrying amount and maturity profile of the Group's financial instruments that are exposed to interest rate risk:

As at 31 December 2011	Within 1 year £m	Within 1-2 years £m	Within 2-5 years £m	More than 5 years £m
Fixed rate:				
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	(125.0)	–
Guaranteed Fixed Rate Loan Notes 2016	–	–	(149.7)	–
Financial investments – corporate bonds	–	–	0.3	–
Financial investments – NIC hedge	0.1	–	–	–
Floating rates:				
Financial investments – NIC hedge	1.2	–	–	–
Financial investments – mutual funds	0.3	–	–	–
Cash and cash equivalents – shareholder	196.9	–	–	–
	198.5	–	(274.4)	–

As at 31 December 2010

Fixed rate:				
Fixed/Floating Rate Subordinated Notes 2016/2026	–	–	–	(125.0)
Guaranteed Fixed Rate Loan Notes 2016	–	–	–	(149.7)
Financial investments – corporate bonds	–	–	0.3	–
Financial investments – NIC hedge	–	–	0.1	–
Floating rates:				
Financial investments – NIC hedge	1.5	–	–	–
Cash and cash equivalents – shareholder	178.8	–	–	–
	180.3	–	0.4	(274.7)

(v) Sensitivity analysis

The Group has quantified the impact of specific changes in its significant market risk variables. This analysis measures the change in fair value of the Group's financial instruments.

The sensitivity analysis, which is for illustrative purposes only, is prepared based on financial instruments at the reporting dates. The sensitivity assumes changes in certain market conditions. These assumptions may differ materially from the actual outcome due to the inherent uncertainties in global financial markets. In practice, market risks rarely change in isolation and are likely to be interdependent. The methods and assumptions used are the same for both reporting periods.

The sensitivity analysis has been prepared based on the impact that a set percentage increase or decrease in the market conditions would have on the profit or loss and on total equity.

Changes in exchange rates assume an instantaneous increase or decrease of 10.0% in foreign currency to Sterling rates at the reporting date, with all other variables remaining constant.

The estimated changes in fair values of investments assume a 10.0% increase or decrease in the fair values of investments at the reporting date, with all other variables remaining constant.

Changes in market interest rates assume an increase or decrease of 1.0% in the rate applied to average cash balances in the year.

37. The extent of risks arising from financial instruments continued

The financial impact of market risk sensitivities, after taxation, are summarised below:

	Profit or loss sensitivity £m	Profit or loss sensitivity £m	Equity sensitivity £m	Equity sensitivity £m
As at 31 December 2011				
Exchange rate movement*	+10%	-10%	+10%	-10%
Sterling/Euro exchange rates	1.0	(1.2)	5.5	(6.7)
Sterling/USD exchange rates	0.1	(0.2)	0.1	(0.2)
Fair value movement – Investments				
	+10%	-10%	+10%	-10%
Sterling equity prices	0.4	(0.4)	0.6	(0.6)
Interest rate movement				
	+1%	-1%	+1%	-1%
Sterling market interest rates	1.5	(1.5)	1.5	(1.5)
As at 31 December 2010				
Exchange rate movement*	+10%	-10%	+10%	-10%
Sterling/Euro exchange rates	0.8	(0.9)	6.5	(7.8)
Sterling/USD exchange rates	0.4	(0.6)	0.4	(0.6)
Fair value movement – Investments				
	+10%	-10%	+10%	-10%
Sterling equity prices	0.6	(0.6)	0.8	(0.8)
Interest rate movement				
	+1%	-1%	+1%	-1%
Sterling market interest rates	1.5	(1.5)	1.5	(1.5)

* +10% represents a movement in favour of the Group and -10% represents a movement against the Group.

In addition, the F&C REIT put options are disclosed in note 28 at fair value. A 10% movement in the fair value of the options at 31 December 2011 would result in a £4.5m (31 December 2010: £5.4m) charge or credit to the Income Statement and to equity.

Impairment of financial assets can also be affected by changes in the relevant underlying risk.

(d) Capital

A summary of the Group's capital and the net assets which it represents is shown below:

	31 December 2011 £m	31 December 2010 £m
Share capital	0.5	0.5
Share premium account	51.8	51.8
Capital redemption reserve	0.8	0.8
Merger reserve	359.7	383.3
Other reserves	(22.8)	(19.5)
Retained earnings	154.3	138.2
Non-controlling interests	12.5	16.5
Total equity	556.8	571.6
Net assets	556.8	571.6

Note 36 describes the Group's management of capital, working capital and regulatory capital requirements.

38. Insurance risk management

The Group's insurance contracts are all annuity contracts which guarantee payment during the lifetime of the annuitant at a specified level or with a specified escalation factor. They are all 100% reinsured with Friends Life Limited.

The only risk that the Group is subject to in respect of these contracts is the credit risk of the reinsurer. Given the small amount at risk (£2.0m at 31 December 2011; £2.0m at 31 December 2010), this is not considered to be significant.

39. Subsidiary undertakings

The principal entities controlled by the parent undertaking are as follows:

	Percentage interest and voting rights*	Country of registration or incorporation	Nature of business
(i) United Kingdom			
FP Asset Management Holdings Limited ⁽¹⁾	100	England	Holding company
F&C Asset Management Services Limited ⁽¹⁾	100	Scotland	Employee service company
ISIS Investment Manager plc ⁽¹⁾	100	England	Investment management
F&C Managed Pension Funds Limited ⁽¹⁾	100	England	Unit-linked pooled pensions business
F&C Treasury Limited ⁽¹⁾	100	England	Treasury management company
F&C Group (Holdings) Limited ⁽¹⁾	100	England	Holding company
F&C Group ESOP Trustee Limited ⁽¹⁾	100	Scotland	ESOP Trustee
F&C Investment Business Limited ⁽¹⁾	100	Scotland	Investment management
F&C Finance plc ⁽¹⁾	100	England	Debt financing company
F&C Aurora (GP) Limited ⁽¹⁾	100	Scotland	General Partner
The Aurora Fund (Founder Partner) LP ⁽¹⁾	50 [†]	Scotland	Founder Partner
F&C European Capital Partners (GP) Limited ⁽¹⁾	100	Scotland	General Partner
F&C European Capital Partners (Founder Partner) LP ⁽¹⁾	50 [†]	Scotland	Founder Partner
F&C Climate Opportunity Partners (GP) Limited ⁽¹⁾	100	Scotland	General Partner
F&C Climate Opportunity Partners (Founder Partner) LP ⁽¹⁾	50 [†]	Scotland	Founder Partner
F&C REIT Asset Management LLP ⁽¹⁾	70 [†]	England	Property asset management
FP Fund Managers Limited ⁽²⁾	100	England	Investment management
F&C Asset Managers Limited ⁽²⁾	100	England	Investment management
F&C Property Limited ⁽²⁾	100	England	Property asset management
WAM Holdings Limited ⁽³⁾	100	England	Holding company
F&C Property Investments Limited ⁽⁴⁾	100	England	Property asset management
F&C Fund Management Limited ⁽⁴⁾	100	England	OEIC investment management
F&C Managers Limited ⁽⁴⁾	100	England	Investment management
F&C Alternative Investments (Holdings) Limited ⁽⁵⁾	100	England	Holding company
F&C Group Management Limited ⁽⁵⁾	100	England	Holding company
F&C Holdings Limited ⁽⁶⁾	100	England	Holding company
F&C (C) Limited ⁽⁷⁾	100	England	Investment company
F&C Investment Services Limited ⁽⁷⁾	100	England	Support services company
F&C Management Limited ⁽⁷⁾	100	England	Investment management
FCEM Holdings (UK) Limited ⁽⁸⁾	100	England	Holding company
F&C Emerging Markets Limited ⁽⁹⁾	100	England	Investment management
F&C Partners LLP ⁽¹⁰⁾	100 [†]	England	Hedge fund investment management
F&C Private Equity Nominee Limited ⁽¹¹⁾	100	England	Investment company
F&C REIT Property Asset Management plc ⁽¹²⁾	70	England	Property asset management
REIT Asset Management Limited ⁽¹²⁾	70	England	Property asset management
F&C REIT Corporate Finance Limited ⁽¹³⁾	70	England	Property asset management
Tier Services Limited ⁽¹⁴⁾	70	England	Property asset management
Thames River Capital UK Limited ⁽¹⁶⁾	100	England	Employee service company
Thames River Capital LLP ^{(17)#}	100 [†]	England	Investment management
Thames River Multi-Capital LLP ^{(17)#}	100 [†]	England	Investment management
(ii) Non United Kingdom			
Thames River Capital Group Limited ⁽¹⁾	100	Cayman Islands	Holding company
F&C Netherlands B.V. ⁽⁵⁾	100	The Netherlands	Investment management
F&C Ireland Limited ⁽⁵⁾	100	Republic of Ireland	Investment management
F&C Portugal Gestao de Patrimonios S.A. ⁽⁵⁾	100	Portugal	Investment management
F&C Asset Management Asia Limited. ⁽⁵⁾	100	Hong Kong	Investment management
F&C Management Luxembourg S.A. ⁽⁵⁾	100	Luxembourg	Investment management
F&C Channel Islands Limited ⁽⁶⁾	100	Jersey	Employee service company
F&C REIT Asset Management S.à.r.l. ⁽¹²⁾	70	Luxembourg	Property asset management
F&C REIT Asset Management Sweden AB ⁽¹⁴⁾	70	Sweden	Property asset management
F&C REIT Asset Worldwide Limited ⁽¹⁴⁾	70	Gibraltar	Property asset management
F&C REIT Asset Management GmbH & Co KG ⁽¹⁴⁾	70 [†]	Germany	Property asset management
F&C REIT Property Management India Pvt Ltd ^{(14)#}	70	India	Property asset management
Thames River Capital Holdings Limited ⁽¹⁵⁾	100	Cayman Islands	Holding company

* Voting rights are ordinary share capital except where indicated.

[†] Partnership interest in voting rights.

These companies have non-coterminous 31 March reporting dates, to comply with local reporting requirements and partnership agreements.

39. Subsidiary undertakings continued

- (1) Owned by F&C Asset Management plc
- (2) Owned by FP Asset Management Holdings Limited
- (3) Owned by F&C Treasury Limited
- (4) Owned by WAM Holdings Limited
- (5) Owned by F&C Group (Holdings) Limited
- (6) Owned by F&C Group Management Limited
- (7) Owned by F&C Holdings Limited
- (8) Owned by F&C Management Limited
- (9) Owned by FCEM Holdings (UK) Limited
- (10) Owned by F&C Alternative Investments (Holdings) Limited
- (11) Owned by F&C (CI) Limited
- (12) Owned by F&C REIT Asset Management LLP
- (13) Owned by REIT Asset Management Limited
- (14) Owned by F&C REIT Asset Management S.à.r.l.
- (15) Owned by Thames River Capital Group Limited
- (16) Owned by Thames River Capital Holdings Limited
- (17) Owned by Thames River Capital UK Limited

40. Related party transactions

In the ordinary course of business, the Group carried out transactions with related parties, as defined by IAS 24: Related Party Disclosures.

The principal subsidiary undertakings of the Company are shown in note 39.

During the year, the Group entered into the following transactions with related parties:

(a) Compensation of key management personnel of the Group

In aggregate these are set out below:

	Total compensation 2011 £m	Outstanding at 31 December 2011 £m	Total compensation 2010 £m	Outstanding at 31 December 2010 £m
Short-term employee and member benefits	13.5	6.1	10.2	4.2
Post-employment benefits	0.8	–	0.8	–
Termination benefits	1.7	0.7	–	–
Share-based payments	6.0	–	3.2	–
Total	22.0	6.8	14.2	4.2

'Key management personnel' comprise:

- Directors of all principal companies in the Group;
- Members of the Group Management;
- Members of F&C REIT's Executive Committee; and
- Members of TRC's Management Committee.

40. Related party transactions continued

Compensation of key management personnel excludes the profit entitlement attributable to minority interests, which are separately disclosed within note 40(c)(iii).

Where key management personnel participate in defined benefit pension schemes which have been accounted for as such under IAS 19, the amount included as compensation reflects the current service and/or past service cost for the relevant year. Where key management personnel are members of multi-employer defined benefit arrangements or defined contribution schemes, the benefits shown reflect the contributions payable for each year.

The share-based payments disclosed in the table above reflect the value of any share-based payments vesting during the year. This is quantified as the aggregate of cash payments plus the fair value of shares on the date of vesting (excluding any consideration payable on exercise) of such share-based payment awards.

(b) Transactions with key management personnel of the Group

Appropriations of profits paid to key management are as follows:

	2011 £m	2010 £m
Ordinary dividends paid	0.1	0.2
Distributions paid to minority interests*	7.1	5.9

* An analysis of profit entitlements for 2011 and 2010 and net assets attributable to minority interests at 31 December 2011 and 31 December 2010 are disclosed on pages 119 and 120.

(c) Transactions and balances with Group related parties

Transactions with related parties during 2011 and 2010 and outstanding balances with these parties as at 31 December 2011 and 31 December 2010 are given below, by each group of related parties.

(i) Related party transactions with Sherborne

Sherborne owns approximately 20% of the Ordinary Share capital of F&C and is represented on the Board by the Executive Chairman, Edward Bramson, who is a partner in Sherborne. Sherborne is entitled to ordinary dividends, and a fee in respect of the Chairman's services to F&C.

The Group's transactions with Sherborne are disclosed below:

	Total expensed and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total expensed and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Ordinary dividends paid to Sherborne*	3.0	–	n/a	n/a
Director's fees payable to Sherborne*	0.1	–	n/a	n/a
Other expenses payable to Sherborne*	0.2	–	n/a	n/a

* With effect from Mr Bramson's appointment as Chairman on 3 February 2011.

40. Related party transactions continued

(ii) Related party transactions with Achmea B.V. and subsidiary companies (Achmea Group)

While the Achmea Group held in excess of 10% of the Ordinary Share capital of the Company they were entitled to appoint a representative to the Board of the Company. However, since 1 March 2011, Achmea no longer had Board representation and as a result ceased to be a related party. The disclosures below represent transactions up to that date or balances at that date.

Companies within the F&C Group provide investment management services to the Achmea Group. Companies within the Achmea Group, under the Transitional Services Agreement, provide services in respect of investment accounting and other administration services.

	Total invoiced and accrued during 2011* £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Shared services and administrative services:				
Achmea Group	0.1	n/a	0.2	–
Friends First	–	n/a	0.1	0.1
Amounts outstanding at 31 December are included within accruals.				
Management fees:				
Achmea Group	4.0	n/a	25.5	1.5
Friends First	0.8	n/a	4.6	0.2
Imperio	0.1	n/a	0.5	0.2
Amounts outstanding at 31 December are included within trade debtors and accrued income.				
Dividends payable to Achmea B.V.:				
Ordinary dividends	n/a	n/a	2.6	–

* Until Achmea ceased to have Board representation on 1 March 2011.

Other amounts owed by/to Achmea

In addition to the above, the Group was owed £1.7m at 1 March 2011 (31 December 2010: £1.4m) by Achmea B.V. and its subsidiaries.

The Group also owed Achmea B.V. £1.3m at 1 March 2011 (31 December 2010: £1.3m) in respect of taxation balances.

The Group owed Achmea B.V. £0.7m at 31 December 2011 (31 December 2010: £0.7m) in respect of additional estimated purchase consideration for the acquisition of F&C Group (Holdings) Limited on 11 October 2004 as disclosed in note 15(c).

(iii) Transactions with minority partners

(1) F&C REIT Asset Management LLP

F&C Asset Management plc owns 70% of the "A" and "B" partnership units in F&C REIT Asset Management LLP (the Partnership). The other partners in the Partnership, all of whom have significant influence over the management of the Partnership or a significant economic interest in the Partnership are:

Kendray Properties Limited	30.0%	ownership interest in "B" units
Leo Noé	22.5%	ownership interest in "A" units
Ivor Smith	7.5%	ownership interest in "A" units

These parties are considered to be related parties.

40. Related party transactions continued

The partners are entitled to receive a share of the profits of F&C REIT Group as disclosed in the table below:

	2011 amortisation of intangible assets £m	2011 profit share £m	2011 distributions paid £m	NCI at 31 December 2011 £m	2010 amortisation of intangible assets £m	2010 profit share £m	2010 distributions paid £m	NCI at 31 December 2010 £m
Kendray Properties Limited	(1.0)	2.3	(3.5)	6.8	(1.2)	2.4	(2.4)	9.0
Leo Noé	(0.7)	1.9	(2.4)	4.7	(0.9)	2.2	(2.3)	5.9
Ivor Smith	(0.3)	0.7	(1.0)	1.0	(0.3)	0.7	(0.9)	1.6
	(2.0)	4.9	(6.9)	12.5	(2.4)	5.3	(5.6)	16.5

F&C has a shared services agreement and a staff secondment agreement with F&C REIT Asset Management LLP whereby the F&C Group provides certain administrative and professional services to the F&C REIT Group. Amounts charged under these agreements are set out below:

	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Shared services and administrative services:				
Employee benefits	9.3	4.3	9.0	3.3
Administration service fees	1.0	0.2	1.0	0.1

The above amounts are eliminated on consolidation.

In addition, F&C REIT Asset Management LLP paid Leo Noé and Ivor Smith £0.4m during 2011 (2010: £0.5m) in respect of rent for the F&C REIT Group's head office at Wigmore Street, London.

The F&C REIT Asset Management LLP Group has balances with several entities connected with the minority partners of the Partnership. These balances primarily remain from the creation of the F&C REIT Group in 2008.

	Balances outstanding at 31 December 2011 £m	Balances outstanding at 31 December 2010 £m
Kendray Properties Limited	–	(0.3)
REIT Europe Limited	0.1	0.1

During 2011, F&C Asset Management plc made a carried interest investment in F&C REIT Carry LP, an associated entity. This investment will entitle the Company to future carried interest profits from the management of F&C REIT Club Deals LP.

£13.5m of profit distributions were paid by F&C REIT Asset Management LLP to the Company in 2011 (2010: £10.6m), which eliminate on consolidation.

40. Related party transactions continued

Certain management fees receivable by F&C companies outwith the F&C REIT Group are passed to the F&C REIT Group under revenue delegation agreements, as the asset management activity has been delegated to F&C REIT. Amounts payable during the year and outstanding at the year end are set out below:

	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Management fees	11.2	4.4	13.3	4.6

These amounts are eliminated on consolidation.

As part of the acquisition of REIT in 2008, F&C issued £35.0m of Floating Rate Secured Notes to Kendray Properties Limited, of which £25.0m was repaid to Kendray Properties Limited during 2009 and £10.0m was repaid in 2010.

Interest on Floating Rate Secured Notes

	Charged and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Charged and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Interest payable to Kendray Properties Limited	–	–	0.2	–

The F&C Group recognises a share-based payment credit or expense in respect of the variable minority interest enhancement which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 26(c).

The F&C REIT minority partners each have a put option to sell their minority stake in F&C REIT after a minimum number of years. Details of the carrying amount of these option liabilities are disclosed in note 28. The option liability is split in the ownership proportions of Kendray Properties Limited, Leo Noé and Ivor Smith.

(2) F&C Partners LLP

F&C Alternative Investments (Holdings) Limited owned 60% of F&C Partners LLP until the founder partners exercised their put options over their shares on 7 October 2011, whereupon F&C acquired the remaining 40% of the interest in the Partnership. The founder partners, both of whom held significant influence over the management of the Partnership and had the following economic interest in the Partnership until 7 October 2011, were:

F. Barthelemy	20% ownership interest
A. Culligan	20% ownership interest

These parties were considered to be related parties until the date of transfer of the membership interests.

The partners were entitled to receive a share of the profits in F&C Partners LLP.

	2011 profit entitlement* £m	2011 distributions paid* £m	NCI at 31 December 2011 £m	2010 profit entitlement £m	2010 distributions paid £m	NCI at 31 December 2010 £m
F. Barthelemy	0.1125	(0.1125)	n/a	0.15	(0.15)	–
A. Culligan	0.1125	(0.1125)	n/a	0.15	(0.15)	–
	0.225	(0.225)	n/a	0.3	(0.3)	–

* Until 7 October 2011.

Under the terms of the Partnership agreement, a portion of certain management fees receivable by F&C Partners LLP are passed to F&C Alternative Investments (Holdings) Limited.

	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Management fees	–	n/a	0.2	0.1

These amounts are eliminated on consolidation.

40. Related party transactions continued

The Group has a shared services agreement with F&C Partners LLP whereby the F&C Group provides certain administrative and professional services to F&C Partners LLP.

	Total invoiced and accrued during 2011* £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Employee services	0.3	n/a	0.8	0.4
Administration service fees	0.1	n/a	0.1	–

These amounts are eliminated on consolidation.

* Until 7 October 2011.

(iv) Transactions with Thames River Capital related party entities

Two of the directors of Thames River Capital UK Limited are also members of Nevsky Capital LLP, an entity to which Thames River Capital UK Limited provides support and infrastructure services.

Thames River Capital UK Limited recharges Nevsky Capital LLP at cost for these services.

	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010* £m	Outstanding at 31 December 2010 £m
Support and infrastructure services:				
Nevsky Capital LLP	3.0	0.6	0.6	0.7

* Period from 1 September 2010 – 31 December 2010.

(v) Post-employment benefit plans

The Group operates and participates in several post-employment benefit plans as detailed in note 25.

The Group contributed amounts to the defined benefit plans and had amounts outstanding at 31 December each year as follows:

	Employer contributions 2011 £m	Outstanding at 31 December 2011 £m	Employer contributions 2010 £m	Outstanding at 31 December 2010 £m
F&C Asset Management Pension Plan	5.3	–	8.1	–
F&C Portugal ⁽¹⁾	0.4	–	0.3	–
F&C Netherlands	0.6	–	0.4	–
F&C Ireland	0.2	–	0.2	–
	6.5	–	9.0	–

⁽¹⁾ Incorporated within the Fundo de Pensoes do Grupo Banco Comercial Português scheme.

In addition to the above, the Group has an unfunded obligation to provide a former Chairman, Mr R W Jenkins, with a pension as detailed in note 25.

The Group manages certain of the assets of the F&C Asset Management Pension Plan. The assets of the Plan managed by the Group totalled £189.8m at 31 December 2011 (31 December 2010: £176.1m).

The Group received the following investment management fees from this scheme:

	Fees receivable 2011 £m	Outstanding at 31 December 2011 £m	Fees receivable 2010 £m	Outstanding at 31 December 2010 £m
F&C Asset Management Pension Plan	0.1	–	0.1	–

40. Related party transactions continued

(vi) Asset management vehicles

The Group has some carried interest investments in asset management vehicles, which entitle the Group to a share of profits if certain investment return thresholds are achieved.

The Group provides asset management services for a number of asset management vehicles where Group companies directly sponsor or are involved in the management of underlying funds, which meet the criteria of related parties. In return the Group receives investment management fees for provision of these services.

These asset management vehicles and the investment management fees are summarised below:

	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Asset management vehicles	51.9	4.5	52.1	4.5

41. Capital Requirements Directive

Under Pillar 3 of the Capital Requirements Directive, prescribed in the UK by the Financial Services Authority, the Group is required to disclose information relating to its risks, regulatory capital, remuneration policy and risk management objectives and policies. The Group's Pillar 3 disclosures are given on the Company's website (www.fcamlc.com).

42. Guarantees

The Company's subsidiary, F&C Netherlands B.V., has provided a lease guarantee for £0.3m to the landlord of its premises at Jachthavenweg 109E, 1081 KM Amsterdam.

43. Events after the reporting period

Corporation Tax

The Chancellor of the Exchequer announced a further Corporation Tax rate reduction in his budget of 21 March 2012. This will become effective from 1 April 2012 and will now move the UK Group's statutory effective tax rate to 24.5% for 2012. Furthermore this reduction will move the Group's tax rate to 22% by 2015.

44. Parent undertaking and controlling party

In the opinion of the Directors, the Group has no ultimate parent undertaking and controlling party.

Five Year Record

Historical summaries

The Five Year Record is shown based on International Financial Reporting Standards which have been adopted by the Group. This Five Year Record is not part of the audited Financial Statements.

	2007 £m	2008 (as restated) £m	2009 £m	2010 £m	2011 £m
Consolidated Income Statements					
Revenue					
Investment management fees	267.2	244.2	237.8	258.2	279.0
Other income	10.6	1.1	4.1	1.6	4.2
Total revenue	277.8	245.3	241.9	259.8	283.2
Fee and commission expenses	(13.3)	(15.4)	(16.8)	(16.6)	(16.2)
Net revenue	264.5	229.9	225.1	243.2	267.0
Net gains/(losses) and investment income on unit-linked assets	45.0	(208.7)	136.0	74.3	13.7
Movement in fair value of unit-linked liabilities	(43.9)	210.5	(134.6)	(73.3)	(13.4)
Operating expenses					
Operating expenses	(183.8)	(171.0)	(164.8)	(169.7)	(183.8)
Distributions to members of LLPs	–	–	–	(6.0)	(18.3)
Amortisation of intangible assets – management contracts	(42.4)	(48.9)	(49.8)	(50.7)	(45.8)
Impairment of intangible assets – management contracts	–	(48.3)	–	–	–
Unrealised (losses)/gains on forward currency contracts	–	(12.3)	1.2	–	–
Other exceptional net operating costs	(10.6)	(10.6)	(19.0)	(20.9)	(19.0)
Total operating expenses	(236.8)	(291.1)	(232.4)	(247.3)	(266.9)
Operating profit/(loss)	28.8	(59.4)	(5.9)	(3.1)	0.4
Finance revenue	23.8	25.7	11.5	11.1	17.2
Finance costs	(27.3)	(29.4)	(30.3)	(33.6)	(35.4)
F&C REIT put option fair value gain	–	–	5.6	6.4	8.7
TRC acquisition consideration adjustments	–	–	–	–	7.6
Gain on debt exchange	–	–	27.9	–	–
Loss on disposal of subsidiaries and associates	–	(4.1)	–	–	–
Impairment in associates and other financial investments	–	(0.1)	(0.1)	–	–
Share of profit of associates	0.6	–	–	–	–
Profit/(loss) before tax	25.9	(67.3)	8.7	(19.2)	(1.5)
Tax – Shareholders	(6.6)	17.6	10.4	6.2	4.1
Tax – Policyholders	(0.6)	(0.9)	(0.4)	(0.4)	–
Tax (expense)/income	(7.2)	16.7	10.0	5.8	4.1
Profit/(loss) for the year	18.7	(50.6)	18.7	(13.4)	2.6
Attributable to:					
Equity holders of the parent	17.1	(52.5)	15.9	(16.6)	(0.5)
Non-controlling interests	1.6	1.9	2.8	3.2	3.1
Profit/(loss) for the year	18.7	(50.6)	18.7	(13.4)	2.6
Underlying earnings per Ordinary Share[#]	10.43p	7.75p	4.57p	5.74p	5.51p
Basic earnings/(loss) per Ordinary Share	3.54p	(10.66)p	3.24p	(3.31)p	(0.10)p
Diluted earnings/(loss) per Ordinary Share	3.43p	(10.66)p	3.19p	(3.31)p	(0.10)p
Dividends					
Memo					
Final dividend for 2006, 2007, 2008, 2009 and 2010	33.8	19.7	19.8	19.4	10.4
Interim dividend for 2007, 2008, 2009, 2010 and 2011	9.7	9.9	9.7	5.1	5.2
	43.5	29.6	29.5	24.5	15.6
Final dividend per Ordinary Share for 2006, 2007, 2008, 2009 and 2010	7.0p	4.0p	4.0p	4.0p	2.0p
Interim dividend per Ordinary Share for 2007, 2008, 2009, 2010 and 2011	2.0p	2.0p	2.0p	1.0p	1.0p
Dividend cover[†]	0.39	(1.78)	0.54	(0.68)	(0.03)
Dividend cover before exceptional items ^{†#}	1.16	1.29	0.76	1.17	1.82

* As restated for the amendment to IFRS 2: Share-based Payment.

As restated in 2007, 2008, 2009 and 2010 for the effect of the Deferred Tax – Corporation Tax rate change being excluded from Underlying EPS.

† Based on the dividends paid during 2007, 2008, 2009, 2010 and 2011.

Reconciliations of reported to underlying earnings

The following tables reconcile the reported earnings to underlying earnings attributable to equityholders of the parent. In addition, the calculation of certain key performance indicators is given below.

Year ended 31 December 2011

£ millions unless otherwise stated

	Underlying Group Earnings			Profit attributable to equity holders of the parent	
	Reported earnings	Adjustments	Adjusted Income Statement	Non-controlling interests profits*	Underlying earnings
A Net Revenue	267.0	–	267.0	–	267.0
Net policyholder income	0.3	–	0.3	–	0.3
Operating expenses	(183.8)	–	(183.8)	–	(183.8)
Distributions to members of LLPs	(18.3)	–	(18.3)	–	(18.3)
Amortisation of intangible assets	(45.8)	45.8	–	–	–
Other exceptional net operating expenses	(19.0)	19.0	–	–	–
Total operating expenses	(266.9)	64.8	(202.1)[†]	–	(202.1)
B Operating profit	0.4	64.8	65.2	–	65.2
Interest paid	(23.8)	–	(23.8)	–	(23.8)
Interest and investment income received	5.7	–	5.7	–	5.7
F&C REIT put option fair value gain	8.7	(8.7)	–	–	–
TRC acquisition consideration adjustments	7.6	(7.6)	–	–	–
Other non-operating items	(0.1)	–	(0.1)	–	(0.1)
Non-controlling interests profits	–	–	–	(5.7)	(5.7)
(Loss)/profit before tax	(1.5)	48.5	47.0[†]	(5.7)	41.3
Tax income/(expense)	4.1	(17.6)	(13.5)	0.6	(12.9)
C Profit for the year	2.6	30.9	33.5	(5.1)	28.4
Underlying EPS (C÷D)					5.5p
Underlying operating margin (B÷A)			24.4%		
D Weighted average number of shares (000's)					515,373

* Excluding NCI share of amortisation of intangible assets.

† Defined as 'underlying operating costs'.

‡ Defined as 'Group underlying profit before tax'.

Year ended 31 December 2010

£ millions unless otherwise stated

	Underlying Group Earnings			Profit attributable to equity holders of the parent	
	Reported earnings	Adjustments	Adjusted Income Statement	Non-controlling interests profits*	Underlying earnings
A Net Revenue	243.2	–	243.2	–	243.2
Net policyholder income	1.0	–	1.0	–	1.0
Operating expenses	(169.0)	–	(169.0)	–	(169.0)
Exchange losses	(1.6)	–	(1.6)	–	(1.6)
Realised gains attributable to closed FX contracts	0.9	–	0.9	–	0.9
FX contract losses recognised in prior periods	–	(1.3)	(1.3)	–	(1.3)
Operating expenses	(169.7)	(1.3)	(171.0)	–	(171.0)
Distributions to members of LLPs	(6.0)	–	(6.0)	–	(6.0)
Amortisation of intangible assets	(50.7)	50.7	–	–	–
Other exceptional net operating expenses	(20.9)	20.9	–	–	–
Total operating expenses	(247.3)	70.3	(177.0)[†]	–	(177.0)
B Operating (loss)/profit	(3.1)	70.3	67.2	–	67.2
Interest paid	(22.3)	–	(22.3)	–	(22.3)
Interest and investment income received	1.6	–	1.6	–	1.6
F&C REIT put option fair value gain	6.4	(6.4)	–	–	–
Other non-operating items	(1.8)	–	(1.8)	–	(1.8)
Non-controlling interests profits	–	–	–	(6.4)	(6.4)
(Loss)/profit before tax	(19.2)	63.9	44.7[†]	(6.4)	38.3
Tax income/(expense)	5.8	(16.0)	(10.2)	0.7	(9.5)
C (Loss)/profit for year	(13.4)	47.9	34.5	(5.7)	28.8
Underlying EPS (C÷D)					5.7p
Underlying operating margin (B÷A)			27.6%		
D Weighted average number of shares (000's)					501,469

* Excluding NCI share of amortisation of intangible assets and other exceptional costs.

† Defined as 'underlying operating costs'.

‡ Defined as 'Group underlying profit before tax'.

Company Financial Statements

for the year ended 31 December 2011

These Financial Statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

The Consolidated Financial Statements of the F&C Asset Management Group, given on pages 42 to 122 have been prepared in accordance with IFRS.

Company Balance Sheet


as at 31 December 2011

	Notes	31 December 2011 £m	31 December 2010 £m
Fixed assets			
Tangible fixed assets	5	0.9	1.3
Investments in subsidiaries	6	1,256.0	1,262.8
Other investments	7	5.4	9.8
		1,262.3	1,273.9
Current assets			
Debtors – amounts falling due:			
Within one year	8	106.7	107.1
Outwith one year	8	60.6	61.8
Cash and short-term deposits		2.0	0.2
		169.3	169.1
Creditors (amounts falling due within one year)	9	(11.7)	(31.1)
Net current assets		157.6	138.0
Total assets less current liabilities		1,419.9	1,411.9
Creditors (amounts falling due outwith one year)	9	(303.9)	(311.1)
Provisions for liabilities	10	(8.3)	(6.9)
Net assets		1,107.7	1,093.9
Capital and reserves			
Called up Ordinary Share capital	15, 16	0.5	0.5
Share premium account	16	51.8	51.8
Capital redemption reserve	16	0.8	0.8
Merger reserve	16	912.7	912.7
Other reserves	16	75.4	75.8
Profit and loss account	16	66.5	52.3
Total shareholders' funds	16	1,107.7	1,093.9

The Company Financial Statements were approved by the Board of Directors and authorised for issue on 23 March 2012. They were signed on its behalf by:



Edward Bramson
Executive Chairman



Alain Grisay
Chief Executive

Company Accounting Policies

Basis of preparation

The separate Financial Statements of the Company are presented as required by the Companies Act and are prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with applicable accounting standards in the United Kingdom.

The principal accounting policies set out below have been applied consistently for the years ended 31 December 2011 and 31 December 2010.

The Company's Financial Statements are presented in millions of pounds Sterling (rounded to one decimal place), the Company's functional and presentational currency.

In accordance with Section 408 of the Companies Act 2006 a separate Profit and Loss Account for the Company is not presented.

The Company has taken advantage of the exemption in FRS 29: Financial Instruments: Disclosure and Presentation and has not disclosed the information required by that standard because the Company is included in the Consolidated Financial Statements which are publicly available and include disclosures given under IFRS 7: Financial Instruments: Disclosures.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 2 to 21. The financial position of the Group, its cash flows and liquidity position are also described in the Business Review. In addition, note 36 to the Consolidated Financial Statements on pages 104 to 108 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk and liquidity risk.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these Financial Statements.

Turnover

Turnover comprises fees for secretarial services provided to Investment Trusts, and shared services and administration services provided to subsidiary undertakings. Fees are recognised in the Profit and Loss Account over the period for which these services are provided.

Dividend recognition

Dividends receivable and dividends payable are recognised only when they have been declared and approved or at the date of payment for interim dividends.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses. The cost includes the uplift arising from the

equity-settled share-based payments calculated in accordance with FRS 20: Share-based Payment, where no cash contributions are made by the subsidiaries. The uplift is credited to a capital contribution reserve in equity. The Company recharges certain subsidiaries when it satisfies these equity-settled awards with its own shares.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Expenditure on tangible fixed assets is capitalised on initial recognition. Subsequent expenditure is only capitalised when it is probable that there will be future economic benefits associated with the expenditure which can be measured reliably. All other expenditure is recognised in the Profit and Loss Account as an expense as incurred.

Tangible fixed assets are depreciated, using the straight-line method, to write off the cost of assets over their estimated useful lives, as follows:

Leasehold improvements	– 10 years
Office furniture & equipment	– 3-5 years
Computer equipment	– 3 years

The carrying value of assets and their useful lives are reviewed at each reporting date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the Profit and Loss Account in the year in which it arises.

Financial instruments

When financial instruments are recognised initially they are measured at fair value plus directly attributable transaction costs.

The fair value of instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices (mid-price for Open Ended Investment Companies) at the close of business on the balance sheet date.

Financial instruments are classified into the categories described below:

- (i) *Available for sale financial assets* are carried at fair value in the Balance Sheet. In respect of unquoted instruments, or where the market for a financial instrument is not active, fair value is established by using recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation Guidelines.

For unquoted investments in early stage enterprises and enterprises with revenues but without significant profits or significant positive cash flows, fair value is determined using the "Price of a Recent Investment" method. Repayments are treated as reductions to carrying value. After an appropriate period, an assessment is made as to whether the circumstances of the investment have changed such that another valuation methodology is appropriate or there is any evidence of deterioration or strong defensible evidence of an increase in

value. In the absence of these indicators, fair value is determined to be that reported at the previous balance sheet date.

Unquoted investments with revenues, maintainable profits and/or maintainable cash flows are valued by deriving an Enterprise Value of the underlying business.

Movements in fair value, other than impairment losses and foreign exchange movements on monetary assets, are taken to the fair value reserve in equity until derecognition of the asset, at which time the cumulative amount in this reserve is recognised in the Profit and Loss Account. The following assets are classified as *available for sale*:

- Fixed assets
 - Other investments
- (ii) *Financial instruments at fair value through profit or loss* include investments which have been specifically designated as 'at fair value through profit or loss'. These are carried in the Balance Sheet at fair value and movements in fair value are taken to the Profit and Loss Account in the period in which they arise. The following assets are classified as *financial instruments at fair value through profit or loss*:
- Fixed assets
 - Other investments
- (iii) *Loans and receivables* are measured on initial recognition at fair value plus any incremental costs incurred. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Profit and Loss Account when loans and receivables are derecognised or impaired, as well as through the amortisation process. The following assets and liabilities are classified as *loans and receivables*:
- Current assets:
 - Debtors
 - Cash and short-term deposits

- (iv) *Financial liabilities* are recognised at amortised cost using the effective interest rate method after initial recognition. The following liabilities are classified as *financial liabilities*:

- Creditors (amounts falling due within one year)
- Creditors (amounts falling due outwith one year)

The Company has adopted "trade date" accounting for purchases or sales of financial assets under a contract whose terms require delivery of the assets within the timeframe established in the marketplace concerned. Accordingly, such financial instruments are recognised on the date the Company commits to the purchase of the investments, and are derecognised on the date it commits to their sale.

Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset, is derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is either discharged, cancelled or expires.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment in loans and receivables carried at amortised cost has occurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the expected recoverable amount. The carrying amount of the asset would be reduced and the amount of the loss recognised in the Profit and Loss Account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Profit and Loss Account to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available for sale financial assets

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the Profit and Loss Account, is transferred from reserves to the Profit and Loss Account. Reversals in respect of equity instruments classified as available for sale are not recognised in the Profit and Loss Account. Reversals of impairment losses on debt instruments are taken through the Profit and Loss Account, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the Profit and Loss Account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay less or receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a commitment to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold;
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and

- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating leases

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight-line basis over the lease term.

Lease incentives are recognised by the Company as a reduction of the rental expense, allocated on a straight-line basis, over the shorter of the lease term and a period ending on a date from which it is expected the prevailing market rental will be payable.

Accounting for Employee Benefit Trusts (EBTs)

UITF 38 requires that own shares acquired through an EBT be deducted in arriving at shareholders' funds until they vest unconditionally to the employees. Consideration paid and received for the purchase or sale of these shares is included in shareholders' funds and no gain or loss is recognised. Other assets and liabilities of the EBTs are recognised as assets and liabilities of the Company.

Ordinary Shares of the Company are held by EBTs in order to satisfy a number of F&C Group share-based payment plans and future exercises of options and awards to employees of subsidiary companies. The cost relating to the share-based payment plans is recognised in the subsidiary companies which employ the staff in receipt of awards and the Company recognises any fresh issue of shares or re-issue of own shares when such a transaction occurs. These shares are included in the Financial Statements of the Company as a deduction from shareholders' funds.

Provisions

A provision is recognised in the Balance Sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. No provision is established where a reliable estimate of the obligation cannot be made.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Where the Company has obligations under property leases and where the space has ceased to be used for the purposes of the business, full provision is made for future net outstanding liabilities under such leases after taking into account the effect of any expected sub-letting arrangements.

Related party disclosures

FRS 8: Related Party Disclosures requires disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of the exemption in FRS

8 not to disclose transactions between F&C Group companies which eliminate on consolidation.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the balance sheet date, and any exchange differences arising are taken to the Profit and Loss Account.

Non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the date of transaction and are not subsequently restated. Non-monetary assets and liabilities stated at fair value in a foreign currency are translated at the exchange rate at the date the fair value was determined. When fair value movements in assets and liabilities are reflected in the Profit and Loss Account, the corresponding exchange movements are also recognised in the Profit and Loss Account. Conversely, when fair value movements in assets and liabilities are reflected directly in equity, the corresponding exchange movements are also recognised directly in equity, with the exception of available for sale debt instruments, which are reflected in the Profit and Loss Account.

Share-based payments

The Company operates a share scheme arrangement which is required to be accounted for as a share-based payment.

The fair value of share-based payment awards, where it is not considered possible to estimate reliably the fair value of these awards at the grant date, is determined by measurement of the equity instruments at intrinsic value. The fair value is measured by an independent external valuer at each reporting date. The intrinsic value is spread over the vesting period.

Vesting of equity-settled employee share awards depends upon meeting "non-market related" performance conditions. The type of vesting criteria affects the calculation of the expense charged to the Profit and Loss Account and subsequent adjustments as non-market related conditions are performance criteria, such as earnings targets and/or service requirements. The probability of meeting non-market conditions is incorporated into the expense charge via the estimate of the number of awards expected to vest. The total cumulative expense is ultimately adjusted to reflect the actual number of awards which vest. Therefore, if no awards vest, no cumulative expense is ultimately recognised.

FRS 20: Share-based Payment makes a distinction between awards settled in equity and those settled in cash. Equity-settled awards are charged to the Profit and Loss Account with a corresponding credit to equity. Cash-settled awards are charged to the Profit and Loss Account with a corresponding credit to liabilities. The estimated fair value of cash-settled awards is re-measured at each reporting date until the payments are ultimately settled.

Ordinary Share capital

When Ordinary Shares are issued the proceeds on issue are allocated to the equity component and included in shareholders' funds, net of transaction costs.

When Ordinary Shares are repurchased, the amounts of consideration paid, including directly attributable costs, are recognised in the own share reserve included within retained earnings and are classified as deductions in equity. Dealings in own shares are reflected through equity.

Dividends on Ordinary Shares are recognised on the date of payment, or if subject to approval, the date approved by the shareholders.

Cash flow statement

The Company has taken advantage of the exemptions in FRS 1 (revised): Cash Flow Statements and has elected not to prepare a Cash Flow Statement as it is included within the Consolidated Cash Flow Statement in the Consolidated Financial Statements of F&C Asset Management plc.

Notes to the Company Financial Statements

1. Auditor's remuneration

Amounts received by the Company's auditor in respect of services to the Company have not been disclosed as the Group-wide information is disclosed in the Consolidated Financial Statements.

2. Directors' remuneration

Details of Directors' remuneration are as follows:

	2011 £m	2010 £m
Aggregate emoluments	2.3	2.2
Company contributions paid to defined contribution pension schemes	0.1	0.1
Aggregate value of gains made by Directors on exercise of share awards	1.9	0.9
	2011 No.	2010 No.
Members of defined contribution pension schemes	2	2

Full disclosure of Directors' remuneration is shown on page 35 and pages 38 to 39.

The Company has no employees (including Directors) under contract of employment, all F&C Group employees being employed by several subsidiary companies.

3. Dividends

Details of dividends paid and proposed during the year are disclosed in note 11 to the Consolidated Financial Statements on page 65.

4. Acquisitions

The acquisition of Thames River Capital Group was made on 1 September 2010. Section (a) discloses the 2010 acquisition note and section (b) discloses the 2011 updates for changes in consideration.

(a) 2010 – Acquisition of Thames River Capital Group

Full details of the acquisition of the TRC Group are disclosed in note 15(a) to the Consolidated Financial Statements on pages 69 to 72. Under UK GAAP the expenses of acquisition are capitalised in accordance with FRS 7, while under IFRS these are expensed by the Group through the Income Statement. The details of the acquisition are otherwise similar to those disclosed in the Consolidated Financial Statements.

The aggregate consideration in respect of the acquisition of TRC in the Company Financial Statements is summarised as follows:

	£m
Initial consideration – cash	33.6
Estimated additional cash consideration payable as a result of TRC net assets exceeding target net assets	7.5
Estimate of first instalment of conditional consideration	5.0
Estimate of second instalment of conditional consideration	2.5
Expenses of acquisition	7.2
Total estimated consideration	55.8

(b) 2011 – Acquisition of Thames River Capital Group

The aggregate consideration paid by the Company as disclosed in 2010 has been revised as follows:

- (i) The additional cash consideration paid as a result of TRC net assets exceeding target net assets was £7.4m, compared to £7.5m as estimated in the 2010 Financial Statements.
- (ii) The fair values of both the first and second instalments of conditional consideration have both been revised to zero, as the Run-rate EBITDA targets on an annualised basis have not been achieved. Therefore, the total conditional consideration liability of £7.5m has been released.

Both of these adjustments have resulted in a reduction in the carrying value of the Company's investments in subsidiaries and a release of the corresponding acquisition creditor.

5. Tangible fixed assets

	Leasehold improvements £m	Office furniture and equipment £m	Computer equipment £m	Total £m
Cost:				
At 1 January 2011	4.1	0.4	5.3	9.8
Disposals	–	–	(0.1)	(0.1)
At 31 December 2011	4.1	0.4	5.2	9.7
Depreciation:				
At 1 January 2011	2.8	0.4	5.3	8.5
Depreciation charge for the year	0.4	–	–	0.4
Disposals	–	–	(0.1)	(0.1)
At 31 December 2011	3.2	0.4	5.2	8.8
Net book values:				
At 31 December 2010	1.3	–	–	1.3
At 31 December 2011	0.9	–	–	0.9

6. Investments in subsidiaries

	Note	£m
Cost:		
At 1 January 2011		1,265.8
Adjustment to acquisition creditor for TRC net assets consideration	4(b)	(0.1)
Reversal of TRC conditional consideration	4(b)	(7.5)
Additions in respect of share-based payment awards		17.3
Recharge in respect of share-based payment awards		(16.5)
At 31 December 2011		1,259.0
Cumulative impairment:		
At 1 January 2011 and 31 December 2011		3.0
Net book values:		
At 31 December 2010		1,262.8
At 31 December 2011		1,256.0

Included within the above net book value is £74.2m (31 December 2010: £73.4m) in respect of equity-settled share-based payment awards made by subsidiary undertakings.

7. Other investments

The classification of investments at 31 December is as follows:

	Notes	31 December 2011 £m	31 December 2010 £m
Available for sale	(a)	1.5	3.2
Fair value through profit or loss	(b)	3.9	6.6
		5.4	9.8

(a) Available for sale

	Unquoted £m
At 1 January 2011	3.2
Fair value movement in the year	1.6
Fair value gains transferred to the Profit and Loss Account	(3.3)
At 31 December 2011	1.5

These investments represent carried interest entitlement in private equity funds.

The unquoted investments have been valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and in accordance with the limited partnership agreements where possible.

7. Other investments continued

(b) Fair value through profit or loss

	Purchased Equity Plan £m	NIC Hedge £m	Total £m
At 1 January 2011	4.0	2.6	6.6
Disposals in the year	(2.6)	(0.1)	(2.7)
Fair value movement in year	0.1	(0.1)	–
At 31 December 2011	1.5	2.4	3.9

Further details of these investments are disclosed in note 18(a)(i)(2) to the Consolidated Financial Statements, on page 75.

The cost of quoted investments as at 31 December 2011 was £3.8m (31 December 2010: £5.9m).

The valuation of quoted investments as at 31 December 2011 was £2.6m (31 December 2010: £5.1m). The fair value of quoted investments is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

8. Debtors

	Note	31 December 2011 £m	31 December 2010 £m
Amounts due within one year:			
Trade debtors		1.0	1.2
Amounts owed by subsidiary undertakings		2.2	2.4
Loan to subsidiary undertaking		94.4	89.4
Prepayments		2.3	3.4
VAT recoverable		0.5	0.7
Group relief receivable		4.6	3.0
Other debtors		1.7	7.0
		106.7	107.1
Amounts due outwith one year:			
Loan to subsidiary undertaking		60.0	60.0
Deferred tax	12	0.6	1.8
		60.6	61.8

The loan to the subsidiary undertaking bears interest at three-month LIBOR minus 0.25% and is with F&C Treasury Limited. The Company will give written notice of a minimum of one year to seek repayment of £60.0m. The £94.4m (31 December 2010: £89.4m) included within Amounts due within one year is repayable on demand.

9. Creditors

	Note	31 December 2011 £m	31 December 2010 £m
Amounts due within one year:			
Trade creditors		0.2	0.5
Accruals		2.5	8.0
Amounts owed to subsidiary undertakings		3.4	2.5
Amounts owed to Achmea Group*		–	0.7
Other creditors		1.6	9.4
Loans from subsidiary undertakings	11	4.0	10.0
		11.7	31.1
Amounts due outwith one year:			
Other creditors		–	7.5
Loans from subsidiary undertakings	11	45.0	45.0
Fixed/Floating Rate Subordinated Notes 2016/2026†	11	258.9	258.6
		303.9	311.1

* As the Achmea Group ceased to be a related party during 2011, these balances are now included within other creditors at 31 December 2011.

† At 31 December 2011 £135.0m (31 December 2010: £135.0m) of the Fixed/Floating Rate Subordinated Notes 2016/2026 are held by F&C Finance plc, a subsidiary undertaking.

Other creditors at 31 December 2011 includes:

- £0.7m (31 December 2010: £0.7m) of estimated further consideration payable in respect of the acquisition of F&C Group (Holdings) Limited during 2004; and
- £nil (31 December 2010: £15.0m) of estimated further consideration payable in respect of the acquisition of Thames River Capital Group on 1 September 2010, as shown in note 4(a).

10. Provisions for liabilities

	Onerous premises contracts £m	Pension Plan guarantee £m	Deferred tax £m	Litigation guarantee £m	Total £m
At 1 January 2010	7.2	–	0.6	2.4	10.2
Provided during the year	0.4	0.1	0.3	–	0.8
Utilised during the year	(1.2)	–	–	–	(1.2)
Released during the year	(0.5)	–	–	(2.4)	(2.9)
At 31 December 2010	5.9	0.1	0.9	–	6.9
Provided during the year	1.1	0.1	0.4	2.0	3.6
Utilised during the year	(1.3)	–	(0.9)	–	(2.2)
At 31 December 2011	5.7	0.2	0.4	2.0	8.3

Onerous premises contracts

The Company holds all properties under operating leases. This includes a number of vacant or sub-let properties which were either previously occupied or are partially occupied by the Company. Provision has been made for the residual lease commitments, where significant, after taking into account existing and expected sub-tenant contractual arrangements. The remaining terms are for up to nine years.

Assumptions have been made as to whether each leasehold property may be sub-let or assigned in the future. All leases and sub-leases are for minimum guaranteed rentals. The provision is subject to uncertainties over time including market rent reviews and break options within the lease arrangements. In addition, exposure could exist if an existing tenant defaulted or went into liquidation or administration.

The amount included within the Profit and Loss Account in respect of unwinding of the discount on onerous premises provisions in 2011 is £0.4m (2010: £0.4m).

Pension Plan guarantee

The Company has agreed to provide the F&C Asset Management Pension Plan (FCAM Plan) Trustees with a guarantee that, should F&C Asset Management Services Limited become insolvent, the Company will guarantee an amount up to the lower of the cost of securing members' benefits with an insurance company over the assets of the FCAM Plan (the 'solvency deficit') and £120.0m. The provision represents the actuarial estimate of the fair value of the guarantee at 31 December 2011 and 31 December 2010.

10. Provisions for liabilities continued

Deferred tax

The deferred tax provision relates to short-term timing differences which have originated but not reversed at the balance sheet date. The provision is subject to uncertainties in respect of when timing differences might reverse. The provision relates to the revaluation of available for sale assets, which is recognised as a separate component of reserves.

A further analysis of deferred taxation is disclosed in note 12.

Litigation guarantee

Note 24 to the Consolidated Financial Statements on pages 82 and 83 outlines the background and status of the F&C Partners litigation.

A provision of £2.4m was recognised during 2009 as the Company had guaranteed any amounts validly due to the founder members in respect of the put option, to the extent that F&C Alternative Investment Holdings (F&C AIH) is unable to meet such obligations. However, the provision was released in 2010 as F&C AIH had sufficient resources available to it to meet any amount payable in respect of a valid put option claim by the two founder members of Partners. The put option liability was settled during 2011.

The Company now has a joint legal obligation with F&C AIH to settle any litigation amounts payable to the founder partners. As a result, the Company has recognised an amount of £2.0m as being potentially payable, in line with the provision recognised in note 24 to the Consolidated Financial Statements.

11. Loans

	Notes	31 December 2011 £m	31 December 2010 £m
Amounts repayable:			
Fixed/Floating Rate Subordinated Notes 2016/2026	(i)	258.9	258.6
Fixed Rate inter-company loan 2016	(ii)	25.0	25.0
Fixed Rate inter-company loan 2016	(iii)	20.0	20.0
Floating Rate inter-company loan repayable on demand	(iv)	4.0	4.0
Floating Rate inter-company loan repayable on demand	(v)	–	6.0
		307.9	313.6

(i) The £260.0m Fixed/Floating Rate Subordinated Notes 2016/2026 bear interest at 6.75% per annum for the period 20 December 2006 – 19 December 2016, payable annually in arrears. The Company has the option to extend the Notes beyond 19 December 2016 at a rate of 2.69% above three-month LIBOR for the period 20 December 2016 – 19 December 2026, payable quarterly in arrears.

(ii) The £25.0m loan bears interest at a fixed rate of 13.26%, payable half-yearly in arrears. This loan is due to F&C Finance plc, a subsidiary undertaking, and is repayable on 19 December 2016.

(iii) The £20.0m loan bears interest at a fixed rate of 9.66%, payable half-yearly in arrears. This loan is due to F&C Finance plc and is repayable on 19 December 2016.

(iv) The £4.0m loan bears interest at three-month LIBOR minus 0.25%, payable quarterly in arrears. This loan is due to F&C Managed Pension Funds Limited, a subsidiary undertaking, and is repayable on demand.

(v) The £6.0m loan due to F&C Managers Limited was settled on 24 January 2011.

	Note	31 December 2011 £m	31 December 2010 £m
Amounts repayable:			
In one year or less, or on demand	9	4.0	10.0
In more than one year but not more than two years		–	–
In more than two years but not more than five years	9	303.9	–
In more than five years	9	–	303.6
		307.9	313.6

Borrowing facilities

The Company has borrowing facilities available to it. The undrawn committed facilities available at the year end are as follows:

	31 December 2011 £m	31 December 2010 £m
Revolving credit facility	20.0	20.0
Bank overdraft facilities	–	0.5
	20.0	20.5

Details of the revolving credit facility, which expired on 29 February 2012, are disclosed in note 22 to the Consolidated Financial Statements on page 80.

12. Deferred taxation

	2011 £m	2010 £m
At 1 January	0.9	1.0
Provided/(utilised) during the year	0.3	(0.1)
Adjustments in respect of previous periods	(1.0)	–
At 31 December	0.2	0.9

	31 December 2011 £m	31 December 2010 £m
Deferred taxation is provided as follows:		
Distributions from partnerships	–	0.8
Depreciation in advance of capital allowances	0.5	0.7
Other timing differences	0.1	0.3
Revaluation of available for sale assets	(0.4)	(0.9)
	0.2	0.9

Disclosed in the Financial Statements as follows:

	Notes	31 December 2011 £m	31 December 2010 £m
Debtors: Amounts due outwith one year	8	0.6	1.8
Provisions for liabilities	10	(0.4)	(0.9)
Net deferred tax asset		0.2	0.9

The Directors believe it is appropriate to recognise a deferred tax asset because it is considered that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

13. Share-based payment

F&C REIT variable non-controlling interests share-based payment (SBP)

Details of this share-based payment award are disclosed in note 26(c) to the Consolidated Financial Statements on page 94.

A combination of a reassessment of the likelihood of the financial targets being achieved and the re-measurement of the fair value of the F&C REIT business resulted in a credit being recognised in both 2011 and 2010. The cumulative charge has been reversed at 31 December 2011, but will be reinstated should the performance criteria be met.

	2011 £m	2010 £m
F&C REIT variable non-controlling interests SBP	(4.8)	(0.3)

	31 December 2011 £m	31 December 2010 £m
Total carrying amount of cash-settled liabilities	–	4.8

14. Pension commitments

The sponsoring company and principal employer for the FCAM Plan is F&C Asset Management Services Limited.

The Company has provided a guarantee in respect of this Plan, further details of which are described in note 10.

15. Ordinary Share capital

	31 December 2011		31 December 2010	
	No. of shares	£m	No. of shares	£m
Ordinary Share capital of 0.1p				
Allotted, called up and fully paid:				
Equity interests				
Ordinary Shares of 0.1p*	532,118,789	0.5	532,118,789	0.5

* Includes those categorised as own shares.

	2011 No. of shares	2010 No. of shares
Issued at 1 January	532,118,789	499,273,120
Placing of new shares	–	24,807,145
Issued at Completion in respect of TRC Commutation arrangements	–	6,085,996
Issue of Shares at par to settle share-based payment awards*	–	1,952,528
Issued at 31 December	532,118,789	532,118,789

* During the year Ordinary Shares were allotted, at par value, to settle share-based payment awards. There was no exercise price associated with these awards.

15. Ordinary Share capital continued

The holders of Ordinary Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

No new Ordinary Shares were allotted in 2011 (2010: 32,845,669). £14.2m was received in respect of the Ordinary Share capital issued during the year ended 31 December 2010.

Contingent rights to the allotment of shares

The Group operates several share-based payment schemes and has a number of contractual obligations which have a contingent right to Ordinary Shares which may be settled by the allotment of shares in the Company. The Company may choose to purchase shares in the market or utilise its own shares to settle some of these awards.

At 31 December 2011 the maximum contingent right to the allotment of shares was as follows:

Scheme	No. of awards outstanding	Exercise price (p)	Exercise/vesting dates
Long-Term Remuneration Plan (Deferred Award)	36,957,268	0.00	1 January 2012 – 10 March 2014
Long-Term Remuneration Plan (Restricted Award)	7,085,543	0.00	4 May 2013 – 4 May 2014
Executive Director Remuneration Plan (Deferred Award)	2,188,992	0.00	8 July 2012
TRC Management Retention Plan	21,312,209	0.00	1 September 2013
TRC Management Incentive Plan	14,208,140	0.00	1 March 2013 – 1 September 2016
TRC Commutation Awards*	23,527,481	0.00	1 March 2012 – 1 September 2016
Purchased Equity Plan (FCAM plc Shares)	691,198	0.00	1 January 2012 – 31 March 2013
Purchased Equity Plan (F&C Investment Funds)†	2,218,877	0.00	2 April 2012
Deferred Share Awards	1,091,159	0.00	1 March 2012 – 1 April 2014
Share Save Scheme	3,766	171.00	1 January 2012 – 1 June 2012
Share Save Scheme	102,663	144.30	1 June 2012 – 1 December 2012
2002 Executive Share Option Scheme	399,343	139.00	1 January 2012 – 19 March 2013
2002 Executive Share Option Scheme	510,557	240.83	1 January 2012 – 9 March 2014
	110,297,196		

* The potential number of shares as quantified at the reporting date.

† The number of shares is dependent on the share price and the value of F&C Funds as explained in note 26(h)(ii) to the Consolidated Financial Statements on page 97.

Details of share-based payment arrangements are given in note 26 to the Consolidated Financial Statements.

Employee Benefit Trusts (EBTs)

The following shares are held in EBTs where the Company is the sponsoring employer or in Nominee for the Company. These are categorised as own shares and deducted from shareholders' funds:

	31 December 2011 No. of shares	31 December 2010 No. of shares
F&C Management Limited Employee Benefit Trust	10,437,516	17,778,910
The Ivory & Sime Employee Benefit Trust	64,176	64,176
Held by RBC cees in a nominee capacity*	2,253,335	2,195,059
	12,755,027	20,038,145

* These are specifically held as TRC Deferred Commutation Shares in respect of Commutation arrangements.

The aggregate nominal value of own shares held by EBTs at 31 December 2011 was £13,000 (31 December 2010: £20,000). The market value of these shares at 31 December 2011 was £8.4m (31 December 2010: £16.8m).

The Trustees of the EBTs have waived their right to the dividend entitlement on some of these shares.

During the year, the Company purchased 4,079,341 of its own Ordinary Shares (2010: 13,849,362) of 0.1p to satisfy the settlement of awards granted under share schemes and to hold as own shares in EBTs. The consideration paid for the shares was £3.2m (2010: £8.8m). The cost of this to the Company, after exercise price monies paid by the employees, was £3.2m (2010: £8.6m).

16. Reserves

Reconciliation of movement in reserves:

	Ordinary Share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Fair value reserve ⁽¹⁾ £m	Capital contribution reserve ⁽¹⁾ £m	Profit and loss account £m	Total shareholders' funds £m
Balance at 1 January 2010	0.5	33.8	0.8	912.7	1.4	66.9	43.0	1,059.1
Share capital allotted on placement of shares	–	14.2 ⁽²⁾	–	–	–	–	–	14.2
Share capital allotted in respect of TRC	–	–	–	–	–	–	–	–
Commutation arrangements	–	3.8	–	–	–	–	(3.8)	–
Purchase of own shares	–	–	–	–	–	–	(8.8)	(8.8)
Settlement proceeds received on disposal of own shares	–	–	–	–	–	–	0.2	0.2
Profit for the year	–	–	–	–	–	–	33.2	33.2
Final 2009 dividend paid	–	–	–	–	–	–	(19.4)	(19.4)
Interim 2010 dividend paid	–	–	–	–	–	–	(5.1)	(5.1)
Fair value gain	–	–	–	–	1.2	–	–	1.2
Tax on fair value gain	–	–	–	–	(0.2)	–	–	(0.2)
Equity settled share-based payment charge	–	–	–	–	–	19.5	–	19.5
Transfer to Profit and Loss Account on settlement of share-based payment awards by subsidiaries	–	–	–	–	–	(13.0)	13.0	–
Balance at 31 December 2010	0.5	51.8	0.8	912.7	2.4	73.4	52.3	1,093.9
Purchase of own shares	–	–	–	–	–	–	(3.2)	(3.2)
Profit for the year	–	–	–	–	–	–	16.5	16.5
Final 2010 dividend paid	–	–	–	–	–	–	(10.4)	(10.4)
Interim 2011 dividend paid	–	–	–	–	–	–	(5.2)	(5.2)
Fair value gain	–	–	–	–	1.6	–	–	1.6
Fair value gains transferred to Profit and Loss Account	–	–	–	–	(3.3)	–	–	(3.3)
Tax on fair value movements	–	–	–	–	0.5	–	–	0.5
Equity settled share-based payment charge	–	–	–	–	–	17.3	–	17.3
Transfer to Profit and Loss Account on settlement of share-based payment awards by subsidiaries	–	–	–	–	–	(16.5)	16.5	–
Balance at 31 December 2011	0.5	51.8	0.8	912.7	1.2	74.2	66.5	1,107.7

⁽¹⁾ The Fair value reserve and Capital contribution reserve constitute 'Other reserves' as disclosed on the face of the Balance Sheet and amount to £75.4m at 31 December 2011 (31 December 2010: £75.8m).

⁽²⁾ The share premium recognised during 2010 is stated net of £0.4m of transaction expenses associated with the related share placing.

The profit after tax of the Company for the year, before dividends paid, was £16.5m (2010: £33.2m).

17. Financial commitments

The Company had the following annual commitments in respect of non-cancellable operating leases and other contracts:

	Premises		Other Contracts	
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	31 December 2010 £m
Commitments expiring within one year	–	–	–	0.1
Commitments expiring within two to five years	0.1	0.1	–	–
Commitments expiring outwith five years	4.5	4.6	–	–
	4.6	4.7	–	0.1

The premises financial commitments disclosed above do not include any sub-leasing arrangements which the Company may have in place. The amounts shown reflect gross commitments at the balance sheet dates.

18. Capital commitments

There are no capital commitments not provided for at 31 December 2011 (31 December 2010: £nil).

19. Subsidiary undertakings

Details of the principal subsidiary undertakings are disclosed in note 39 to the Consolidated Financial Statements on pages 115 and 116.

20. Related party transactions

The Company has taken exemption from the requirement to disclose related party transactions with wholly-owned members of the F&C Asset Management plc Group on the basis that these companies are included within the Consolidated Financial Statements of F&C Asset Management plc.

(a) Related party transactions with Sherborne

Sherborne owns approximately 20% of the Ordinary Share capital of F&C and is represented on the Board by the Executive Chairman, Edward Bramson, who is a partner in Sherborne. Sherborne is entitled to ordinary dividends, and a fee in respect of the Chairman's services to F&C.

The Company's transactions with Sherborne are disclosed below:

	Total expensed and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total expensed and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Ordinary dividends paid to Sherborne*	3.0	–	n/a	n/a
Other expenses payable to Sherborne*	0.2	–	n/a	n/a

* With effect from Mr Bramson's appointment as Chairman on 3 February 2011.

(b) Transactions with entities which are not wholly owned

F&C REIT Asset Management LLP

F&C Asset Management plc owns 70% of F&C REIT Asset Management LLP. The other partners in the Partnership, all of whom have significant influence over the management of the Partnership or a significant economic interest in the Partnership, are:

Kendray Properties Limited	30.00% ownership interest in "B" units
Leo Noé	22.50% ownership interest in "A" units
Ivor Smith	7.50% ownership interest in "A" units

These parties are considered to be related parties.

Interest on Secured Loan Notes

The remaining £10.0m of Secured Loan Notes issued as part consideration for the acquisition of the REIT Group were repaid to Kendray Properties Limited on 29 June 2010.

	Charged and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Charged and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Interest payable to Kendray Properties Limited	n/a	n/a	0.2	–

Shared services and administrative services

The Company has a shared services agreement with F&C REIT Asset Management LLP whereby it provides certain administrative and professional services to F&C REIT Asset Management LLP. Amounts charged under this agreement are set out below:

	Total invoiced and accrued during 2011 £m	Outstanding at 31 December 2011 £m	Total invoiced and accrued during 2010 £m	Outstanding at 31 December 2010 £m
Administration service fees	0.8	0.1	0.8	0.1

£13.5m of profit distributions were paid to the Company by F&C REIT Asset Management LLP in 2011 (2010: £10.6m).

F&C Asset Management plc recognises a share-based payment credit or expense in respect of the variable minority interest enhancement in ownership interest which could be achieved by Kendray Properties Limited, Leo Noé and Ivor Smith. Full details are disclosed in note 26(c) to the Consolidated Financial Statements on page 94.

The F&C REIT minority partners each have a put option, requiring the Company to purchase their minority stake in F&C REIT after a minimum number of years, at fair value. The fair value of the option is nil, as the potential amount payable is the same as the fair value of the interests to be acquired.

In the Consolidated Financial Statements the gross amount payable under the option is dealt with as a liability, in accordance with IAS 32 as an obligation for purchase of own equity. As at 31 December 2011, the value of this commitment is estimated at £45.3m (31 December 2010: £54.0m). Further details are provided in note 28 to the Consolidated Financial Statements on page 99. The option liabilities are split in the ownership proportions of Kendray Properties Limited, Leo Noé and Ivor Smith.

During 2011, F&C Asset Management plc made a carried interest investment in F&C REIT Carry LP, an associated entity. This investment will entitle the Company to future carried interest profits from the management of F&C REIT Club Deals LP.

21. Guarantees

The Company has provided the following guarantees as at 31 December 2011:

- A guarantee in respect of the F&C Asset Management Pension Plan. Details of this guarantee are disclosed in note 10.
- A guarantee for the £149.7m 9% Guaranteed Fixed Rate Loan Notes 2016 issued by F&C Finance plc, details of which are disclosed in note 22 to the Consolidated Financial Statements on page 80. These Loan Notes are unconditionally and irrevocably guaranteed by the Company.
- Guaranteed funding for its subsidiary F&C Treasury Limited until 27 September 2012 for satisfying its liabilities. At 31 December 2011, F&C Treasury Limited had net liabilities of £24.1m.
- Guaranteed funding for its subsidiary F&C Alternative Investments (Holdings) Limited until 28 September 2012 for satisfying its liabilities. At 31 December 2011, F&C Alternative Investments (Holdings) Limited had net liabilities of £9.7m.

22. Contingent liabilities

Ongoing business operations

In the normal course of its business, the Company is subject to matters of litigation or dispute. While there can be no assurances, at this time the Directors believe, based on the information currently available to them, that it is not probable that the ultimate outcome of any of these matters will have a material adverse effect on the financial condition of the Company.

23. Post Balance Sheet Events

Corporation Tax

The Chancellor of the Exchequer announced a further Corporation Tax rate reduction in his budget of 21 March 2012. This will become effective from 1 April 2012 and will now move the Company's statutory effective tax rate to 24.5% for 2012. Furthermore this reduction will move the Company's tax rate to 22% by 2015.

24. Parent undertaking and controlling party

In the opinion of the Directors, the Company has no ultimate parent undertaking and controlling party.

Notice of Annual General Meeting

Notice is hereby given that the thirty-second Annual General Meeting of F&C Asset Management plc will be held at Ironmongers Hall, Shaftesbury Place, Barbican, London EC2Y 8AA on Wednesday 9 May 2012 at 10 a.m. (UK time) for the following purposes:

Ordinary Business

To be proposed as ordinary resolutions:

1. To receive the Financial Statements and the Reports of the Directors and the Independent Auditor for the year ended 31 December 2011.
2. To declare a final dividend of 2.0 pence per share on the ordinary shares of the Company to be paid on 25 May 2012 to members whose name appears on the register of members at the close of business on 30 March 2012.
3. To elect Keith Jones as a Director.
4. To elect Keith Percy as a Director.
5. To re-elect Edward Bramson as a Director.
6. To re-elect Keith Bedell-Pearce as a Director.
7. To re-elect Ian Brindle as a Director.
8. To re-elect David Logan as a Director.
9. To re-elect Jeff Medlock as a Director.
10. To re-elect Derham O'Neill as a Director.
11. To re-elect Kieran Poynter as a Director.
12. To approve the Directors' Remuneration Report for the year ended 31 December 2011.
13. To re-appoint KPMG Audit Plc as Auditor to the Company to hold office until the conclusion of the next General Meeting at which Financial Statements are laid before the Company and to authorise the Directors to determine their remuneration.
14. THAT:
 - (A) pursuant to section 551 of the Companies Act 2006 ('the Act'), the Directors be generally and unconditionally authorised to allot:
 - (1) shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, up to a maximum nominal amount of £177,355.19, subject to **paragraph A(2)**; and
 - (2) shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company, comprising equity securities (within the meaning of section 560(1) of the Act) up to a maximum nominal amount (when aggregated with any allotment made pursuant to **paragraph A(1)**) of £354,710.38 in connection with a Pre-Emptive Offer undertaken by means of a rights issue;
 - (B) the authorities given in this Resolution:
 - (1) shall be in substitution for all pre-existing authorities to allot shares under section 551 of the Act (other than the specific authorities granted at the general meeting of the Company held on 18 June 2010 to allot shares to

satisfy the consideration payable in relation to the acquisition of Thames River and the related commutation arrangements and for the settlement of awards made under the management share plans) but without prejudice to the exercise of any such authority prior to the date hereof; and

- (2) unless renewed, revoked or varied in accordance with the Act, shall expire at the completion of the Annual General Meeting of the Company to be held in 2013, save that the Company may before such expiry make an offer or agreement which would or might require the allotment of shares in the Company, or the right to subscribe for or to convert any security into shares in the Company, after such expiry; and

(C) for the purpose of this Resolution, "Pre-Emptive Offer" means an offer of equity securities to:

- (1) holders of ordinary shares (other than the Company) on a fixed record date in proportion to their respective holdings of such shares; and
- (2) other persons entitled to participate in such offer by virtue of the rights attaching to any other equity securities held by them,

in each case, subject to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to fractional entitlements, legal, regulatory or practical problems under the laws or the requirements of any regulatory body or stock exchange of any territory or otherwise.

To be proposed as special resolutions:

15. THAT:

- (A) subject to the passing of resolution 14 set out in this Notice ('the Allotment Authority'), the Directors be given power pursuant to section 570 of the Companies Act 2006 ('the Act') to allot equity securities (within the meaning of section 560(1) of the Act) for cash, pursuant to the authorities given by the Allotment Authority, and to sell treasury shares wholly for cash, as if section 561(1) of the Act did not apply to any such allotment or sale, provided that such power shall be limited to the allotment of equity securities or the sale of treasury shares:
 - (1) in the case of **paragraph A(1)** of the Allotment Authority, (a) in connection with a Pre-Emptive Offer (as defined in the Allotment Authority); or (b) in order to satisfy options or awards under any share scheme for employees or share incentive plan approved by the Company in general meeting; or (c) otherwise, up to a maximum nominal amount of £26,605.94;
 - (2) in the case of **paragraph A(2)** of the Allotment Authority, in connection with a Pre-Emptive Offer undertaken by means of a rights issue;

(B) the power given in this Resolution:

- (1) shall be in substitution for all pre-existing authorities under section 570 of the Act but without prejudice to the exercise of any such authority prior to the date hereof; and
- (2) unless renewed in accordance with the Act, shall expire at the same time as the Allotment Authority, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry.

This power applies to a sale of shares which is an allotment of equity securities by virtue of section 560(3) of the Act as if the words “in the case of **paragraph A(1)** of the Allotment Authority,” and “in the case of **paragraph A(2)** of the Allotment Authority,” were omitted from, respectively, **paragraphs A(1)** and **A(2)** of this resolution.

16. THAT, in substitution for any existing power under section 701 of the Companies Act 2006 (‘the Act’), but without prejudice to the exercise of any such power prior to the date hereof, the Company be and is hereby generally and unconditionally authorised, pursuant to and in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693 of the Act) of fully paid ordinary shares of 0.1 pence each in the capital of the Company (‘ordinary shares’) in such terms and in such manner as the Directors of the Company may decide, provided that:

- (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 53,211,879 (being approximately 10 per cent. of the issued ordinary share capital of the Company excluding treasury shares as at 22 March 2012);
- (ii) the minimum price which may be paid for an ordinary share is 0.1 pence (exclusive of expenses); and
- (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to 105 per cent. of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the ordinary shares for the five business days immediately preceding the date of purchase,

such authority to expire on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the Annual General Meeting of the Company to be held in 2013, unless previously revoked, varied or renewed by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority enter into a contract or contracts to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts as if this authority had not expired.

Special Business

To be proposed as a special resolution:

17. THAT the period of notice for calling a general meeting (other than an Annual General Meeting) shall be not less than 14 clear days provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013.

By order of the Board

W Marrack Tonkin, FCCA

Secretary

80 George Street
Edinburgh EH2 3BU

23 March 2012

Notes

- (i) A member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and speak and vote on his/her behalf. A member may appoint more than one proxy provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.
- (ii) A Form of Proxy for use by Ordinary Shareholders in connection with the meeting is enclosed with these Accounts. To be valid, the Form of Proxy should be completed and signed and sent or delivered, together with any power of attorney or other authority (if any) under which it is signed or an extract from the Books of Council and Session or a notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or authority, in accordance with the instructions contained therein, so as to reach the Company’s registrars, at the address stated thereon, not later than 10 a.m. (UK time) on 4 May 2012.
- (iii) Alternatively, shareholders who would like to lodge their proxy electronically may do so via the Sharevote website (www.sharevote.co.uk) or through CREST in each case so as to be received by no later than 10 a.m. (UK time) on 4 May 2012. Further details relating to proxy appointments through CREST are set out in note (xvi) below. If you return more than one valid proxy appointment in respect of the same share, either by paper or electronic communication, the one which is received last will take precedence; if the Company is unable to determine which of them was received last, none of them will be treated as valid in respect of that share.
- (iv) Completing and returning a Form of Proxy will not prevent an Ordinary Shareholder from attending in person at the meeting referred to above and voting should he or she wish to do so.
- (v) To be entitled to attend and vote at the meeting (and for the purposes of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6.00 p.m. on Friday, 4 May 2012 (or, in the event of any adjournment, on the date which is two days (excluding any part of a day that is not a working day) before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
- (vi) If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint a proxy. See note (vii) below.

- (vii) If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights:
- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ('Relevant Member') to be appointed or to have someone else appointed as a proxy for the meeting.
 - If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.
- (viii) Any corporation which is a shareholder can appoint one or more corporate representative(s) who may exercise on its behalf all of its powers as a shareholder provided that they do not do so in relation to the same shares.
- (ix) Under section 527 of the Companies Act 2006, shareholders meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.
- (x) Any shareholder attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
- (xi) In accordance with section 311A of the Companies Act 2006, the contents of this notice, details of the total number of shares in respect of which members are entitled to exercise voting rights at the meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice of meeting will be available on the Company's website at www.fcampplc.com.
- (xii) As at 22 March 2012 (being the latest practicable date prior to publication of this notice) the Company's issued share capital consisted of 532,118,789 ordinary shares of 0.1 pence each carrying one vote each. No shares are held in treasury. Therefore, total voting rights in the Company as at 22 March 2012 are 532,118,789.
- (xiii) Copies of the following documents will be made available for inspection at the registered office of the Company and at the Company's head office during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) from the date of this notice until the close of the meeting, and at the place of the meeting from 15 minutes prior to and during the continuance of the meeting:
- the Executive Directors' service contracts and Non-executive Directors' letters of appointment; and
 - the articles of association of the Company.
- (xiv) A member may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purpose other than those expressly stated.
- (xv) The Company has made provision for shareholders who would like to vote by electronic means.
- (xvi) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by our Registrars, Equiniti (ID RA19) by 10 a.m. (UK time) on 4 May 2012. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instruction to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
- The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notice To US Shareholders – Certain PFIC Considerations

Shareholders should consult their own tax advisors as to the tax considerations applicable to them relating to the purchase, ownership and disposition of our ordinary shares (the 'Shares'), including the applicability of US Federal state and local tax laws and non-US tax laws. This discussion does not address tax considerations applicable to US Shareholders other than the passive foreign investment company rules.

F&C Asset Management plc (the 'Company') and certain of its subsidiaries may be treated as passive foreign investment companies (each, a 'PFIC') within the meaning of section 1297 of the US Internal Revenue Code of 1986, as amended (the 'Code') for US Federal income tax purposes.

Treatment of the Company or any of its subsidiaries as a PFIC could result in adverse tax consequences for US Shareholders.

A foreign corporation generally will be treated as a PFIC in any year in which either 75 per cent. or more of its gross income constitutes passive income or at least 50 per cent. of the value of its assets is attributable to assets which produce or are held for the production of passive income. In applying these tests, a non-US corporation that directly or indirectly owns at least 25 per cent., by value, of the stock of another corporation is treated as if it held directly its proportionate share of the other corporation's assets and received directly its proportionate share of the other corporation's income.

Whether a non-US company is a PFIC is determined annually, and the status of the Company, or any of its subsidiaries, could change depending among other things upon the changes in the composition of its gross receipts and assets, and the nature of its business.

US Shareholders are particularly urged to consult their own Tax Advisors regarding the US tax considerations relating to an investment in a company that may be or may become a PFIC, including the availability and consequences of elections that may be available to mitigate the adverse Federal income tax consequences of owning or disposing of PFIC shares. In that regard, US Shareholders should be aware that the Company does not intend to satisfy the record keeping and other requirements that would permit a US Shareholder to make a qualified electing fund ('QEF') election with respect to the Company or any of its subsidiaries.

Each taxpayer is hereby notified that: (a) any discussion of US Federal tax issues herein is not intended or written to be used, and cannot be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under US Federal tax law; (b) any such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) the taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

Corporate Information

Directors

Edward Bramson, Executive Chairman[‡]
 Alain Grisay, Chief Executive
 Keith Bedell-Pearce, Senior Independent Non-executive^{††}
 Ian Brindle, Non-executive
 Keith Jones, Non-executive^{‡*}
 David Logan, Chief Financial Officer
 Jeff Medlock, Non-executive^{†*}
 Derham O'Neill, Non-executive^{†*}
 Keith Percy, Non-executive[°]
 Kieran Poynter, Non-executive^{††*}

[‡] Member of Nomination Committee

^{*} Member of Remuneration Committee

[†] Member of Audit & Compliance Committee

[°] Member of the Risk Committee

Head Office

Exchange House
 Primrose Street
 London
 EC2A 2NY
 Telephone 020 7628 8000
 Facsimile 020 7628 8188
 Email: enquiries@fandc.com

Secretary and Registered Office

W Marrack Tonkin, FCCA
 80 George Street
 Edinburgh
 EH2 3BU
 Telephone 0131 718 1000
 Facsimile 0131 225 2375

Solicitors

Norton Rose LLP
 3 More London Riverside
 London
 SE1 2AQ

Shepherd and Wedderburn LLP
 1 Exchange Crescent
 Conference Square
 Edinburgh
 EH3 8UL

Principal Banker

The Royal Bank of Scotland plc
 142-144 Princes Street
 Edinburgh
 EH2 4EQ

Shareholder services available from Equiniti Limited

Shareview

The Company's registrar, Equiniti, offers a Shareview service enabling shareholders to have more control over their shares and other investments:

- Direct access to data held on the share register including recent share movements and dividend details.
- The ability to change address details or dividend payment instructions online.
- To sign up for Shareview, shareholders need the "shareholder reference" printed on the proxy form or dividend stationery, and there is no charge to register.

On registration, shareholders can select their preferred format (post or e-mail) for shareholder communications. Shareholders selecting "e-mail" as their mailing preference will be sent shareholder communications, such as proxy forms and notice of Company results by e-mail instead of post, as long as this option is available. Shareholders selecting "post" as their preference will be sent paper documents as usual. Details of software and equipment requirements are given on the website, www.shareview.co.uk

Voting Online

In accordance with good governance practice, the Company is offering shareholders use of an online voting service, "sharevote", offered by Equiniti, at www.sharevote.co.uk. Shareholders can use this service to vote or appoint a proxy online. The same voting deadline (10 a.m. (UK time) on 4 May 2012) applies as for the Personalised Voting Form to vote or appoint a proxy by post to vote. Shareholders need to use the unique personal identification details (Reference Number, Card ID and Account Number) that are printed on the Personalised Voting Form to use this service.

Stockbrokers

J.P. Morgan Cazenove
 10 Aldermanbury
 London
 EC2V 7RF

Jeffries Hoare Govett
 Vintners Place
 68 Upper Thames Street
 London
 EC4V 3BJ

HSBC Bank plc
 8 Canada Square
 Canary Wharf
 London
 E14 5HQ

Auditor

KPMG Audit Plc
 Saltire Court
 20 Castle Terrace
 Edinburgh
 EH1 2EG

Registrar and Transfer Office

Equiniti Limited
 34 South Gyle Crescent
 South Gyle Business Park
 Edinburgh
 EH12 9EB

Corporate information

F&C Asset Management plc
 Registered in Scotland
 Company Registration Number SC73508

Website

Shareholders are encouraged to visit our website
www.fcamlc.com

F&C Asset Management plc

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